The derivative financial instruments are carried at fair value as at December 31, 2021 and 2020. The fair values of the instruments are determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value (Level 2).

As at December 31, 2021, the fair value of the refundable deposits which are expected to be collected beyond 12 months, amounted to P 749.80 million (2020 - P724.84 million) using the discounted cash flow method and prevailing market interest rate as published in BVAL reference as at December 31, 2021. This is classified under level 2 of the fair value hierarchy.

For the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in liabilities arising from financing activities

2021	Loans payable	Accrued interest on loan	Due to related parties	Lease liabilities	Total
Balance at beginning of year	916,994,530	780,581	10,134,309,886	12,316,353,273	23,368,438,270
Additions	-	-	-	1,699,176,651	1,699,176,651
Settlements	-	(36,036,083)	-	(349,229,409)	(385,265,492)
Interest accrual/accretion	-	37,152,555	-	463,763,955	500,916,510
Foreign exchange differences	57,235,237	(780,581)	342,417,630	506,872,532	905,744,818
Other non-cash changes	-	-	-	(23,906,502)	(23,906,502)
Balance at end of year	974,229,767	1,116,472	10,476,727,516	14,613,030,500	26,065,104,255

2020	Loans payable	Accrued interest on loan	Due to related parties	Lease liabilities	Total
Balance at beginning of year	1,049,790,527	4,259,871	10,445,662,702	13,123,519,042	24,623,232,142
Additions	-	-	-	602,640,365	602,640,365
Settlements	(81,119,166)	(33,542,375)	-	(1,397,700,792)	(1,512,362,333)
Interest accrual/accretion	-	34,322,956	-	500,466,766	534,789,722
Foreign exchange differences	(51,676,831)	(4,259,871)	(311,352,816)	(512,572,108)	(879,861,626)
Balance at end of year	916,994,530	780,581	10,134,309,886	12,316,353,273	23,368,438,270

22.7 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital (Note 1). In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements (Note 8).

Total capital being managed by the Company is equal to total equity as shown in the statement of financial position excluding reserve for remeasurement of retirement benefit and reserve on cashflow hedge.

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

23.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations of the Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost basis, except for the derivatives on hedge that are measured at fair values.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 21.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following amendment for the first time for the financial year beginning January 1, 2021:

- Amendment to PFRS 16, Leases, COVID-19-related rent concession

Amendment to PFRS 16 amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual periods beginning on or after April 1, 2021. Please refer to Note 16 for the discussions on the related impact of lease modifications to the Company.

(b) New standards, amendments and interpretations not yet adopted

- PAS 1: Classification of Liabilities as Current or Non-current

Amendments to paragraphs 69 to 76 of PAS 1 were issued to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the following:

- o the definition of right to defer settlement;
- o that a right to defer must exist at the end of the reporting period;
- o that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- o that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

- Amendments to PAS 8 - Definition of Accounting Estimates

Amendments to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments are effective for annual periods beginning on or after January 1, 2023.

- Amendments to PAS 1 - Disclosure of Accounting Policies

Amendments to require disclose its material accounting policy information instead of its significant accounting policies and explanations on how an entity can identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023.

- PFRS 9 Financial Instruments - Fees in "10 per cent" Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- Reference to the Conceptual Framework

Amendments to PFRS 3 are intended to replace a reference to a previous version of the 1989 Conceptual Framework with a reference to the current version of the Conceptual Framework issued in March 2018 without significantly changing its requirements. The guidance is effective as of January 1, 2022, with early adoption permitted.

- Onerous Contracts - cost of fulfilling a contract Standard/Description

This guidance specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. It clarifies that the 'cost of fulfilling' a contract comprises the costs that relate directly to the contract, which can either be incremental costs to fulfil or an allocation of other costs related directly to fulfilment. The guidance is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

- Disclosure of Accounting Policies (Amendments to PFRS 1 and PFRS Practice Statement 2)

The FRSC amended IFRS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the FRSC also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Definition of Accounting Estimates (Amendments to PAS 8)

The amendment to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The Company does not expect these amendments to have a significant impact to the Company's financial statements.

There are no other standards, amendments and interpretations which are effective for the financial year beginning January 1, 2021 that are relevant to and have a material impact on the Company's financial statements.

23.2 Financial instruments

23.2.1 Financial assets

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and (b) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company's financial assets category (b) includes cash in banks, trade and other receivables (Note 3), due from a related party (Note 18) and deposits except for spares and maintenance deposits (Note 7).

Financial assets are included in current assets, except when these are expected to be received or realized more than twelve (12) months after the financial reporting date which are classified as non-current assets.

Recognition and measurement

The Company recognizes a financial asset in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Regular-way purchases and sales of financial assets are recognized on trade date - the date on which the Company commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Trade receivables are measured at the transaction price determined under PFRS 15.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the Company classifies its debt instruments financial assets are as follows:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income/(expense), net.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in other income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/(expenses).

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other income/(expenses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Loss allowances of the Company are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

The Company applies the general approach to provide for ECLs on its financial assets. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off and recovery

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss.

23.2.2 Financial liabilities

Classification

The Company classifies its financial liabilities in the following categories: (i) financial liabilities at fair value (including financial liabilities held for trading and those that are designated at fair value) and (ii) financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company did not hold financial liabilities under category (i) during and at the end of each reporting period.

The Company's financial liabilities under category (i) includes derivative liabilities (Note 10). The Company's financial liabilities at amortized cost includes trade payables and other liabilities (excluding payable to government agencies and deposits from travel agents), lease liabilities, loans payables and due to related parties.

These are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non-current liabilities.

The Company's financial liabilities are disclosed in Note 22.

Initial recognition and subsequent measurement

The Company recognizes a financial liability in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial liabilities at amortized cost are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

Derecognition

Financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

23.2.3 Derivative financial instruments

The Company uses derivative financial instruments, such as swaps and options, to hedge its fuel price risks. Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

As at and for the years ended December 31, 2021 and 2020, the Company did not have fair value hedges and net investment hedges.

Cash flow hedge

Effective January 1, 2019, the Company designated the derivative contracts as cash flow hedges. In cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any accumulated OCI of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the accumulated OCI of hedging that were reported in equity are immediately reclassified to profit or loss.

23.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. The Company has no existing offsetting arrangements as at December 31, 2021 and 2020.

23.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities take into account non-performance risk, which is the risk that the entity will not fulfil an obligation.

23.5 Cash

Cash includes cash on hand and deposits held at call with banks. These are carried in the statements of financial position at face amount or at nominal amount, which approximates its amortised cost using the effective interest rate method. Cash in banks earn interest at prevailing bank deposit rates.

23.6 Receivables

Trade receivables arising from regular sales with an average credit term of approximately 30 days are measured initially at transaction price plus transaction costs, which approximates the original invoice amount, and subsequently measured at amortized cost less any provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

The relevant policies on classification, recognition, measurement, impairment and derecognition are further disclosed in Note 23.2.

23.7 Expendable parts, materials and supplies

Expendable parts, materials and supplies which are essentially the Company's inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises of all costs of purchases and other costs incurred in bringing it to their present location and condition attributable to purchase of these inventories. Cost of these inventories is further reduced by provision for inventory obsolescence, if any.

Expendable parts, materials and supplies are derecognized in the statement of financial position when consumed or written-off. When inventories are consumed, the carrying amount of these expendable parts, materials and supplies is recognized as an expense.

23.8 Prepaid expenses and other assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Advances to suppliers represent advance payments to suppliers relating to importation of goods purchased and payments to contractors for acquisition of capital equipment that require certain percentage of down payments. These are recognized at fair value, which approximate the suppliers' invoice amounts, and subsequently capitalized as inventories or property and equipment when the related goods or equipment have been delivered.

Prepayments and advances to suppliers are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date which are classified as non-current assets.

Other assets in the form of CWTs and Input VAT represent taxes imposed on the Company for the acquisition of goods and services. These are stated at face value less any provision for impairment and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Input VAT are included in current assets, except when utilization and claims against output VAT are expected to be more than twelve (12) months after the reporting date, in which these are classified as non-current assets.

23.9 Property and equipment

Property and equipment are recognized at cost upon initial recognition. Cost includes the purchase price and expenditure that is directly attributable to the acquisition of the items including the cost of bringing the assets to its location and working condition.

Following the initial recognition at cost, all items of property and equipment are subsequently measured at cost less accumulated depreciation, amortization and any impairment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated using the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful lives, as follows:

	Number of years
Aircraft support machinery and equipment	5 to 8
Motor vehicles	5
Office furniture and fixtures	5
Computer hardware and system	5

Leasehold improvements are amortized over the lease period or useful lives of 10 years, whichever is shorter.

The assets' useful lives, and depreciation and amortization method are reviewed periodically to ensure that the period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. When assets are derecognized, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognized in profit or loss.

23.10 Aircraft redelivery costs

Provision for aircraft redelivery costs arose from the Company's obligation, under its operating lease contracts, to bear certain costs of restoration, among others, at the time of the scheduled redelivery of the aircraft. A corresponding asset is recognized as part of property and equipment. Redelivery costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and is recognized in the statement of comprehensive income under "Interest expense" account. The estimated future costs of redelivery are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the statement of income.

23.11 Impairment of non-financial assets

Non-financial assets, such as property and equipment (including the right-of-use assets) and prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.12 Trade payables and other liabilities

Accounts payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using effective interest method. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

23.13 Borrowings and borrowing costs

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of total comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Borrowings are derecognized when the obligation is settled, paid or discharged.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to operations in the year in which these are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are recorded as property and equipment, as applicable. All other borrowing costs are expensed in the period they occur.

As at December 31, 2021, and 2020, there are no borrowing costs directly attributable to the construction of a qualifying asset.

23.14 Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are classified in the consolidated financial position as part of property and equipment.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Number of years
Passenger aircraft	5 to 8
Engines	5
Office	3

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets consist mainly for bus rental and office space, which are recognized as expense on a straight-line basis over the lease term.

23.15 Equity

Share capital

The Company's share capital consists of common shares and preferred shares. Capital stock is measured at par value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of any tax effects.

Preferred shares that are not redeemable or are redeemable at the option of the Company and where payment of dividends is discretionary are classified as equity.

Deficit

Deficit represents accumulated losses of the Company less dividends declared if any, and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The Company is in a deficit position as at December 31, 2021 and 2020. Hence, there are no declarable dividends.

23.16 Revenue

The Company is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Company expects to be entitled to. The specific recognition criteria for each type of revenue are as follows:

Passenger, cargo and other revenues

Passenger, cargo and other revenues (e.g., baggage fees, rebooking fees and other auxiliary income) are recognized over time when the services are rendered (i.e., when the passenger or cargo is lifted), and when applicable, are stated net of discounts. Collections for which services have not been rendered are recognized as contract liability (referred to herein as 'Unearned revenue'). Unearned revenue from passenger ticket are recognized as revenue once the service has been rendered based on the terms and conditions of the ticket.

The carrying amount of unearned revenue as at December 31, 2021 amounted to P1.710 billion (2020 - P1.751 billion). For the year ended December 31, 2021, the Company earned revenue from its contract liabilities as at beginning of the year amounting to P255 million (2020 - P3.76 billion).

Sales of in-flight meals and merchandise

Other revenues pertaining to sale of inflight meals and merchandises are recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

23.17 Other income

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method when it is determined that such income will accrue to the Company.

Other income

All other income is recognized when earned or when the right to receive payment is established.

23.18 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities (or unearned revenues)

A contract liability (presented as Unearned revenue in the statement of financial position) is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Contract liabilities mainly consists of unearned revenues arising from collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

23.19 Costs and expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These are presented in the statements of total comprehensive income according to function of such costs and expenses.

Cost of services

Cost of services represents costs incurred in relation to Company's inflight services. These costs include fuel, staff costs for its flight and ground crews, depreciation of aircraft fleet and ground handling related costs.

Operating expenses

Costs of day-to-day operations are generally expensed when incurred.

23.20 Employee benefits

Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured using their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Retirement benefit obligation

The Company recognized retirement benefit obligation computed based on a defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term Philippine treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on the PHP BVAL Reference Rates adjusted based on the average durations of the benchmark government bonds as at the valuation date, considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Defined benefit cost is comprised of the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Current and past service costs are recognized immediately in profit or loss.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account remeasurement gains (losses) on retirement plans are not reclassified to statement of income in subsequent periods.

Curtailment gain or loss resulting from the reduction in number of employees covered by the plan are recognized immediately in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Compensated absences

Compensated absences are recognized for the number of paid leave days, including holiday entitlement, remaining at the end of the reporting period. These are included in trade payables and other current liabilities account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

23.21 Current and deferred income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (net operating loss carryover or NOLCO) and tax credits (MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses and tax credits can be utilized.

DIT liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

DIT and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

DIT expense or credit is recognized for changes in DIT assets and liabilities during the reporting period. Income tax expense includes income tax as currently payable and those deferred because of temporary differences in the financial and tax reporting bases of assets and liabilities, and unused tax losses and tax credits.

No deferred income tax assets were recognized for temporary differences as management believes that it will not be able to generate sufficient taxable profit to allow for the benefits of the deferred income tax assets to be utilized in the near future. The Company reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

23.22 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among entities which are under control with the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

23.23 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

23.24 Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

23.25 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are prepared in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of total comprehensive income.

23.26 Events after the financial reporting date

Any post year-end event up to the date of the approval of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the financial statements.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by RR No. 15-2010:

(i) Output VAT

Output VAT declared for the year ended December 31, 2021 and the gross revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sales/receipts		
Subject to 12% VAT	1,812,138,066	217,456,567
Subject to zero-rated VAT	527,787,539	-
VAT exempt	-	-
Total	2,339,925,605	217,456,567
Applied input VAT		178,241,516
Net VAT payable		39,215,051

Receipts from the transport of passengers and cargoes to and from places within the Philippines are subject to 12% VAT. Gross receipts from international operations are either exempt or zero-rated. Transport from the Philippines to foreign countries are zero-rated while inbound transport is VAT exempt.

The gross revenues on sale of services are based on gross receipts of the Company while gross revenues amounting to presented in the statements of total comprehensive income are measured in accordance with the Company's accounting policy.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2021 are as follows:

Beginning balance	30,716,778
Add: Current year's domestic purchases/payments for:	
Goods	81,917,825
Services	57,570,613
Importation of goods other than capital goods	8,036,300
Total	178,241,516
Application against output VAT	(178,241,516)
	-

(iii) Documentary stamp tax (DST)

For the year ended December 31, 2021, the Company incurred DST amounting to P P2,684,565 in relation to insurance premiums and borrowings obtained during the year.

(iv) Other taxes and licenses

All other local and national taxes paid and accrued for the year ended December 31, 2021 consist of:

Permits and license fees	1,701,360
Local business	781,866
	2,483,226

(v) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2021 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	2,379,002	103,686,859	106,065,861
Expanded withholding tax	1,415,877	16,897,700	18,313,577
Final withholding tax	1,355,121	53,632,964	54,988,085
	5,150,000	174,217,523	179,367,523

Accrued taxes are included in payable to government agencies Within trade payables and other current liabilities in the statement of financial position.

(vi) Tax assessments

On July 21, 2021, the Company has received a Final Assessment Notice (FAN) from the BIR for the taxable year 2021 covering all taxes. The FAN is currently under protest and has not yet been settled as of reporting date.

(vii) Tax cases

The Company does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2021.

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2022 and 2021 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of total comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in equity for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Material Uncertainty Regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company has incurred losses from its operations amounting to P7,923,381,727 for the year ended December 31, 2022 (2021 - P6,435,154,777), which resulted to accumulated deficit and capital deficiency of P39,921,445,912 and P39,191,993,088, respectively as at December 31, 2022 (2021 - P31,998,064,185 and P31,308,856,713). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

However, the Company has obtained a letter from their major shareholders. Furthermore, the following business initiative are being pursued to continuously improve operations and stimulate demand towards the achievement of pre-pandemic levels: (a) commercial operations resumption with main focus to fully restore and accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong; (b) increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands; and (c) implement programs to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate. Further, the Company endeavors to monitor and control costs by driving operational efficiencies. The effective implementation of these business initiatives is expected to bring favorable results to the Company's business operations in the long term.

We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
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Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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Independent Auditor's Report
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Pilipinas AirAsia)
Page 4

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner
CPA Cert. No. 104972
PTR No. 0011393, issued on January 9, 2023, Makati City
SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
TIN 215-692-059
BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
May 19, 2023

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
ASSETS			
Current assets			
Cash	2	84,042,572	41,855,266
Trade and other receivables, net	3	288,892,736	149,892,446
Expendable parts, materials and supplies	4	509,930,726	327,503,329
Prepayments and other current assets	5	471,866,413	336,319,967
Due from related parties	18	1,334,214,149	1,798,389,785
Total current assets		2,688,946,596	2,653,960,793
Non-current assets			
Property and equipment, net	6	7,460,085,384	8,149,410,514
Deposits	7	895,200,625	785,599,196
Total non-current assets		8,355,286,009	8,935,009,710
Total assets		11,044,232,605	11,588,970,503
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	9	16,961,604,136	14,302,912,397
Unearned revenues	12	2,693,214,084	1,709,973,301
Loans payable	8	113,604,765	974,229,767
Provisions for claims	9	723,038,365	330,106,424
Lease liabilities, current portion	16	7,684,031,107	6,432,937,373
Provision for aircraft redelivery cost, current portion	16	39,241,325	41,245,789
Due to a related party	18	11,000,199,599	10,476,727,516
Total current liabilities		39,214,933,381	34,268,132,567
Non-current liabilities			
Lease liabilities, net of current portion	16	9,545,716,500	8,180,093,127
Loans payable	8	934,319,560	-
Provision for aircraft redelivery costs, net of current portion	16	154,335,834	109,198,848
Retirement benefit obligation	17	386,920,418	340,402,674
Total non-current liabilities		11,021,292,312	8,629,694,649
Total liabilities		50,236,225,693	42,897,827,216
Capital deficiency			
Share capital	11	595,000,000	595,000,000
Deficit		(39,921,445,912)	(31,998,064,185)
Reserve for remeasurements on retirement benefit obligation	17	134,452,824	94,207,472
Total capital deficiency		(39,191,993,088)	(31,308,856,713)
Total liabilities and capital deficiency		11,044,232,605	11,588,970,503

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
Revenues			
Passenger		8,126,447,559	1,691,564,362
Cargo		395,809,263	186,975,260
Other revenues		1,211,393,094	229,488,340
	12	9,733,649,916	2,108,027,962
Cost of services	13	(13,646,258,313)	(6,002,494,995)
Gross loss		(3,912,608,397)	(3,894,467,033)
Operating expenses	14	(1,766,483,508)	(954,511,036)
Other income (expenses), net			
Fair value gain on derivatives	10	-	26,942,974
Other expenses, net	15	(1,251,418,194)	(998,549,791)
Finance costs	15	(992,871,628)	(614,569,891)
Loss before income tax		(7,923,381,727)	(6,435,154,777)
Provision for income tax	19	-	-
Loss for the year		(7,923,381,727)	(6,435,154,777)
Other comprehensive income for the year			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement gain on retirement benefit obligation	17	40,245,352	126,431,265
Item that can be reclassified subsequently to profit or loss			
Net fair value changes on cash flow hedge reserves	10	-	80,417,970
Total comprehensive loss for the year		(7,883,136,375)	(6,228,305,542)

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Share capital (Note 11)	Deficit	Reserve for remeasurements on retirement benefit obligation (Note 17)	Net fair value changes on cash flow hedges (Note 10 and 18)	Total capital deficiency
Balances as at January 1, 2021	595,000,000	(25,562,909,408)	(32,223,793)	(80,417,970)	(25,080,551,171)
Comprehensive loss for the year					
Loss for the year	-	(6,435,154,777)	-	-	(6,435,154,777)
Other comprehensive income for the year	-	-	126,431,265	80,417,970	206,849,235
Total comprehensive loss for the year	-	(6,435,154,777)	126,431,265	80,417,970	(6,228,305,542)
Balances as at December 31, 2021	595,000,000	(31,998,064,185)	94,207,472	-	(31,308,856,713)
Comprehensive loss for the year					
Loss for the year	-	(7,923,381,727)	-	-	(7,923,381,727)
Other comprehensive income for the year	-	-	40,245,352	-	40,245,352
Total comprehensive loss for the year	-	(7,923,381,727)	40,245,352	-	(7,883,136,375)
Balances as at December 31, 2022	595,000,000	(39,921,445,912)	134,452,824	-	(39,191,993,088)

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
Cash flows from operating activities			
Loss before income tax		(7,923,381,727)	(6,435,154,777)
Adjustments for:			
Depreciation and amortization	13,14	2,360,450,856	2,934,310,500
Reversal of impairment loss on ROU assets	15	(963,100,000)	-
Interest expense	15	935,913,735	546,934,074
Provision for impairment of receivables	14	113,245,601	53,738,898
Unrealized foreign exchange loss	22.5	2,484,282,772	1,475,401,805
Loss on retirement of PPE	6	2,238,787	852,287
Interest income	15	(73,018)	(108,233)
Fair value gain on derivatives	10	-	(26,942,974)
Operating loss before changes in assets and liabilities		(2,990,422,994)	(1,450,968,420)
(Increase) decrease in:			
Trade and other receivables		(149,044,730)	(5,752,147)
Expendable parts, materials and supplies		(182,427,397)	44,600,128
Prepayments and other current assets		(135,546,446)	204,665,367
Due from related parties		463,452,894	(1,432,844,047)
Increase (decrease) in:			
Trade payables and other current liabilities		2,345,713,264	3,036,677,630
Provision for claims		392,931,941	-
Unearned revenue		983,240,783	(41,455,800)
Provision for aircraft redelivery costs		16,711,620	-
Retirement benefit obligation		86,763,096	28,821,423
Cash generated from operations		831,372,031	383,744,134
Interest received		73,018	108,233
Net cash from operating activities		831,445,049	383,852,367
Cash flows from investing activities			
Increase in deposits		(47,130,901)	(36,407,009)
Acquisitions of property and equipment	6	(217,372,286)	(6,631,777)
Net cash used in investing activities		(264,503,187)	(43,038,786)
Cash flow from financing activity			
Payment of lease liabilities	16	(397,409,086)	(349,229,409)
Payments of loans payable	8	(13,802,448)	-
Interest paid	8	(107,787,649)	(36,036,083)
Net cash used in financing activities		(518,999,183)	(385,265,492)
Net increase (decrease) in cash		47,942,679	(44,451,911)
Cash at the beginning of the year		41,855,266	40,393,979
Effect of changes in foreign currency exchange rates		(5,755,373)	45,913,198
Cash at the end of the year	2	84,042,572	41,855,266

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements
As at and for the years ended December 31, 2022 and 2021
(All amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Corporate information

1.1 General information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company" or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline, engaged in the transportation of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the "Act") granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively. Beginning 2022, the Company provisionally renews its CPCN for domestic and international services due to a requirement pending for compliance under CAB Resolution No. 32 relating to capital stock of international scheduled air transport service providers (Note 11).

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (the "Parent Company" or AAI) entered a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2022 and 2021, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines and is 60% owned by Filipino shareholders and 40% owned by Malaysian shareholders.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations

For the year ended December 31, 2022, the Company incurred a loss of P7.92 billion (2021 - P6.44 billion) which resulted to accumulated deficit and capital deficiency of P39.92 billion and P39.19 billion, respectively as at December 31, 2022 (2021 - P32.00 billion and P31.31 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P36.53 billion as at December 31, 2022 (2021 - P31.61 billion).

In 2020 and 2021, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in its operations and business strategies in order to maximize revenues and manage direct and operating costs in order to meet its cash flows requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities and frequencies, reduce operational costs, open new destinations and offer new products that are anchored on digital transformation.

In 2022, the Company has gradually improved its operating statistics versus 2021 in terms of operational fleet, aircraft utilization, load factor and average price that translated to higher revenues. This was influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

The following measures are currently implemented to ensure a sustainable recovery path coming out of the pandemic:

- Fleet restoration

  The Company has capitalized on Capital A Berhad's Maintenance Repair and Overhaul (MRO) service provider in the region, Asia Digital Engineering (ADE), that has contributed to a faster fleet recovery especially in the latter part of the year. Capital A Berhad is a shareholder of AAI. In addition, the Company achieved higher-than-expected aircraft utilization which is already at par with the pre-pandemic level.

- Commercial operations resumption

  The relaxation in travel restrictions and quarantine requirements spurred a surge in travel demand. As a result, the Company continues its upward trend in key operating statistics.

  <u>Domestic</u>

  The Company's main focus was to fully restore key strategic Manila routes at pre-pandemic level since this market has the highest profitability. Strong domestic travel has been recorded in the second quarter (Q2) of 2022 driven mainly by the leisure routes peaking in the summer season. In addition, the Company was able to expand its market presence to Dumaguete and Roxas in Q2 of 2022. Meanwhile, in the third quarter (Q3) of 2022, Cebu hub was reopened and a few domestic flights were restored. Further increase in flight frequencies occurred in the fourth quarter (Q4) of 2022, particularly to leisure destinations (Caticlan, Tagbilaran, Puerto Princesa, etc.) in December 2022 which maximized revenues from higher demand for leisure travel.

  <u>International</u>

  At the start of 2022, only the Manila-Singapore and Manila-Hong Kong routes were operating to cater to the Overseas Filipino Workers (OFW) demand for the period. The reopening of Philippine borders has led to the rebounds in key markets by Q2 of 2022. With this, the Company was able to resume its operations from Manila to South Korea and Malaysia. Other key markets started to accept tourists as they slowly followed the reopening of borders in Q3 of 2022, particularly Thailand and Indonesia. In time for the holiday season in Q4 of 2022, the Company was able to resume flights to leisure destinations to bring tourists to Taiwan and Japan for the winter peak season.

- Charter flight business and other revenue streams

  In the first quarter (Q1) of 2022, the Company was able to sustain the momentum, with charter flights flown to China catering the Philippine Offshore Gaming Operators (POGO) workers and to India for the OFW repatriation flights. However, starting April 2022, scheduled international passenger flights resumed operations resulting in a decline in demand for charter business. Overall, charter flight operations contributed P260.25 million or accounting for 2.67% of the total revenue for the year ended December 31, 2022 (2021 - P733.04; 34.77%).

  Meanwhile, cargo revenue amounted to P395.81 million for the year ended December 31, 2022 (2021 - P186.98 million), which already exceeded the pre-pandemic level (year ended December 31, 2019) of P381.11 million. The main focus on cargo was to increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands.

(2)

Various programs were implemented to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate.

- Working capital management

  The Company, with the assistance of Capital A Berhad, managed to restructure several aircraft operating leases with lessors (Note 16). Payments are to be handled on a gradual, progressive basis as the Company is moving towards full restoration of capacity through resumption of its operations.

- Funding and financial support

  Certain shareholders of AAI continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will delay calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2022; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking (Notes 18 and 22).

  In March 2022, the Company was able to restructure its current BDO loan to extend its maturity until June 2025 with quarterly principal repayments and monthly interest. Outstanding loan of the Company restructured amounted to $19.09 million (approximately P1.05 billion) (Note 8).

As the Company recovers from the adverse impacts of COVID-19 into the air travel industry, the Company continues to fully adopt AirAsia brand's business model, including the planned changes in strategies and as well as the introduction of new products and services of the brand. This is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines.

The main focus is to accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong. Full recovery on the domestic network in Manila hub will be achieved in Q1 of 2023, focusing on existing and highly profitable markets. New routes outside Manila targeting Caticlan will be launched to grow domestic presence. International expansion into East Asia to leverage on the pent up demand, targeting destinations where markets are familiar with the AirAsia brand. Meanwhile, the China market will be a key factor in the international recovery, with the possible border reopening by Q2 of 2023 as restrictions ease and later expansion in the second half (2H) of 2023 with new routes from Clark and Cebu. Both Kalibo and Clark hubs will resume their operations by 2H of 2023.

The effective implementation of the new business model is expected to bring favorable results to the Company's business operations in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on May 19, 2023.

Note 2 - Cash

Cash as at December 31 consists of:

	2022	2021
Cash on hand	2,042,656	1,716,000
Cash in banks	81,999,916	40,139,266
	84,042,572	41,855,266

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2022 amounted to P73,018 (2021 - P108,233) (Note 15).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2022	2021
Trade receivables			
Third parties		1,600,397,507	1,322,129,410
Related parties	18	78,004,960	93,472,975
		1,678,402,467	1,415,602,385
Less: Allowance for impairment loss		1,406,552,846	1,293,307,245
Trade receivables, net		271,849,621	122,295,140
Other receivables		17,043,115	27,597,306
		288,892,736	149,892,446

Trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days.

Other receivables include advances to employees which are subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Note	2022	2021
Beginning of the year		1,293,307,245	1,239,568,347
Provision for impairment loss	14	113,245,601	53,738,898
End of the year		1,406,552,846	1,293,307,245

Critical accounting estimates and assumptions: Allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Note 4 - Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2022	2021
At cost		
Expendable parts	504,682,706	322,267,102
Inflight inventories	5,248,020	5,236,227
	509,930,726	327,503,329

For the year ended December 31, 2022, the cost of inventories charged to profit or loss as part of repairs and maintenance expense amounted to P192.72 million (2021 - P56.59 million) (Note 13).

Critical accounting judgment: Determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory obsolescence for the years ended December 31, 2022 and 2021.

Note 5 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2022	2021
Prepaid maintenance and fuel	365,605,279	251,316,677
Prepaid taxes	20,030,625	7,308,995
Prepaid insurance	6,450,044	1,657,905
Others	79,780,465	76,036,390
	471,866,413	336,319,967

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time or through use or consumption.

Input VAT represents taxes imposed on the Company for the acquisition of goods and services that are expected to be utilized and applied against output VAT. These are stated at face value and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which are applied against future income tax payable.

Others include advanced payment for reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, advanced payments for 12-month rent and airport charges and regulatory fees.

Note 6 - Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use (ROU) assets (Note 16)	Total
At January 1, 2021						
Cost	109,530,276	87,684,726	108,309,483	868,619,542	18,106,115,855	19,280,259,882
Accumulated depreciation, amortization and impairment	(40,752,729)	(65,259,850)	(66,600,726)	(372,012,517)	(8,215,864,857)	(8,760,490,679)
Net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
For the year ended December 31, 2021						
Opening net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
Additions	348,214	-	340,357	3,202,086	584,819,943	588,710,600
Depreciation and amortization	(25,745,973)	(12,527,176)	(17,300,793)	(140,956,978)	(2,737,779,580)	(2,934,310,500)
Retirement/disposal						
Cost	-	(22,515,137)	-	(1,860,943)	(136,204,127)	(160,580,207)
Accumulated depreciation and amortization	-	21,373,116	-	1,593,455	112,854,847	135,821,418
Closing net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
At December 31, 2021						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation, amortization and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
For the year ended December 31, 2022						
Opening net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
Additions	26,412,942	-	4,071,277	90,231,163	829,294,580	950,009,962
Lease modification	-	-			(239,745,449)	(239,745,449)
Depreciation and amortization	(43,419,934)	(7,326,490)	(13,179,545)	(111,824,977)	(2,184,699,910)	(2,360,450,856)
Retirement/disposal						
Cost	(2,212,848)	-	-	(25,939)	-	(2,238,787)
Accumulated depreciation and amortization		-	-		-	
Reversal of impairment	-	-	-		963,100,000	963,100,000
Closing net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
At December 31, 2022						
Cost	134,078,584	65,169,589	112,721,117	960,165,909	19,144,280,802	20,416,416,001
Accumulated depreciation, amortization and impairment	(109,918,636)	(63,740,400)	(97,081,064)	(623,201,017)	(12,062,389,500)	(12,956,330,617)
Net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384

Acquisitions of property and equipment as shown in the statements of cash flows for the years ended December 31 were determined as follows:

	Note	2022	2021
Beginning unpaid portion of property and equipment		121,262,445	124,003,565
Acquisitions of property and equipment, excluding ROU assets		120,715,382	3,890,657
Unpaid portion of property and equipment	9	(24,605,541)	(121,262,445)
Paid acquisitions of property and equipment per statements of cash flows		217,372,286	6,631,777

Depreciation and amortization charged to profit or loss for the years ended December 31 are as follows:

	Notes	2022	2021
Cost of services	13	2,296,524,887	2,855,387,278
Operating expenses	14	63,925,969	78,923,222
		2,360,450,856	2,934,310,500

(6)

ROU assets as at December 31 consist of:

	Aircraft	Engine	Office	Total
At January 1, 2021				
Cost	17,904,085,179	65,826,549	136,204,127	18,106,115,855
Accumulated depreciation and impairment	(8,062,883,686)	(63,475,603)	(89,505,568)	(8,215,864,857)
Net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
For the year ended December 31, 2021				
Opening net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
Additions	584,819,943	-	-	584,819,943
Depreciation	(2,712,079,355)	(2,350,946)	(23,349,279)	(2,737,779,580)
Retirement/disposal				
Cost	-	-	(136,204,127)	(136,204,127)
Accumulated depreciation	-	-	112,854,847	112,854,847
Closing net carrying value	7,713,942,081	-	-	7,713,942,081
At December 31, 2021				
Cost	18,488,905,122	65,826,549	-	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	-	(10,840,789,590)
Net carrying value	7,713,942,081	-	-	7,713,942,081
For the year ended December 31, 2022				
Opening net carrying value	7,713,942,081	-	-	7,713,942,081
Additions	829,294,580	-	-	829,294,580
Modifications	(239,745,449)	-	-	(239,745,449)
Depreciation	(2,184,699,910)	-	-	(2,184,699,910)
Reversal of impairment	963,100,000	-	-	963,100,000
Closing net carrying value	7,081,891,302	-	-	7,081,891,302
At December 31, 2022				
Cost	19,078,454,253	65,826,549	-	19,144,280,802
Accumulated depreciation and impairment	(11,996,562,951)	(65,826,549)	-	(12,062,389,500)
Net carrying value	7,081,891,302	-	-	7,081,891,302

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiation obtained by its Parent Company in 2020. The related loan was settled by the Parent Company in 2021.

In 2022, the same engine was used by the Company as collateral to restructure its loans payable (Note 8). As at December 31, 2022, the net carrying amount of the engine amounted to P55,741,290 (2021 - 102,533,290).

Impairment of ROU assets

As discussed in Note 1, the Company is continuously impacted by the adverse effects of the COVID-19 pandemic, as such, management has regularly undertaken impairment assessment review.

In 2022 and 2021 management has undertaken an impairment review of the Company's cash generating units (CGUs), which primarily consist of Aircraft ROU assets, in accordance with PAS 36, Impairment of Assets. In determining the provision, the recoverable amount of the Company's ROU assets was determined based on value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results approved by management covering the remaining lease terms of the entire aircraft fleet. The financial results were also in consideration of the current COVID-19 recovery plans as well as the domestic and international travel policies.

Using the detailed projections of the Company's expected results from its current fleet for the remaining lease terms, the Company calculated a recoverable amount as at December 31, 2022 amounting to P17.37 billion (2021 - P9.36 billion). Consequently, the Company recognized reversal of provision for impairment of its aircraft ROU assets for the year ended December 31, 2022 amounting to P963.10 million (2021 - nil).

The assumptions used as at December 31 are as follows:

	2022	2021
Discount rate	16%	9%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Critical accounting estimates and assumptions: Impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that ROU assets may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. The recoverable amount of right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and assessments could have a significant effect on the carrying value of ROU assets and the amount and timing of recorded provision for any period.

For the year ended December 31, 2022, the Company recognized reversal of ROU impairment amounting to P963.10 million based on the results of management's assessment. Resulting value-in-use based on management's assessment, exceeded the carrying value of the ROU assets. The increase in the value was supported by the Company's efforts to manage lessors and extend lease terms. Moreover, the market is recovering, thereby increasing further the value-in-use of the ROU assets.

For the year ended December 31, 2021, while the resulting value-in-use exceeds the carrying value of the ROU assets, there are no reversal of impairment charges recognized primarily because the changes in the values were determined by management to be attributable to sensitivity of assumptions and impairment indicators continue to exist.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and ROU assets. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

The sensitivity of the value-in-use to changes in the pre-tax discount rate applied in the cash flow projections as at December 31 is as follows:

	Impact on value-in-use	
Change in pre-tax discount rate	Increase in assumption	Decrease in assumption
2022		
+/-1%	Decrease of P608.29 million	Increase of P645.59 million
2021		
+/-1%	Decrease of P381.46 million	Increase of P406.30 million

(8)

When calculating the sensitivity of the impairment provision, the same method (value-in-use) has been applied as when calculating the (reversal of) impairment provision recognized in profit or loss.

Critical accounting judgment: Recoverability of property and equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2022 and 2021, management believes that the carrying amount of the Company's property and equipment are recoverable.

Note 7 - Deposits

Deposits as at December 31 consist of:

	Note	2022	2021
Aircraft and engine lease deposit	16	690,033,369	653,375,961
Refundable deposits		169,775,539	88,781,983
Spares and maintenance deposit		13,030,169	24,986,595
Hangar and office rental	16	22,361,548	18,454,657
		895,200,625	785,599,196

Refundable deposits mainly pertain to bonds paid to different Philippine airport authorities for airport charges. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposit mainly relate to deposits for future fixed asset acquisitions.

Note 8 - Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to $35.0 million (P1.78 billion). Fifty percent (50%) of the loan is payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) is payable in lump sum at the end of the contract term on September 8, 2020. The loan is subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and stockholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of Capital A Berhad and the continuing suretyship of AAI (Note 18).

In 2018, the Company did not meet the required financial ratios. Thus, the portion of loans originally payable in 2020 totaling $20.68 million (P1.09 billion) was presented as current liabilities since BDO has the right to call the loans as at December 31, 2018, and anytime thereafter. The Company was not declared in default by BDO. In 2019, the whole amount of loans payable, being originally due in September 2020, are classified as current.

In 2020, the Company was able to renegotiate the outstanding loan amount extending the maturity date to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. The renegotiated loan is short-term and is not subject to any loan covenant. In November 2021, the Company was able to further renegotiate the maturity of its BDO loan extending the maturity date to June 30, 2022.

In March 2022, the Company was able to roll-over the same loan instrument with the Company's owned-engine as its additional collateral (Note 6). The renegotiated loan is subject to 3-month Term Secured Overnight Financing Rate (SOFR) plus margin of 4% per annum. The loan will mature June 30, 2025 with quarterly principal repayments and monthly interest payments beginning on September 2022.

Movements of loans payable for the years ended December 31 are as follows:

	2022	2021
Balance at the beginning of year	974,229,767	916,994,530
Settlements	(13,802,448)	-
Foreign exchange effects	87,497,006	57,235,237
Balance at the end of year	1,047,924,325	974,229,767

The current and non-current portion of the loans payable as at December 31 are as follows:

	2022	2021
Current	113,604,765	974,229,767
Non-current	934,319,560	-
	1,047,924,325	974,229,767

Movements of accrued interest on loans payable for the years ended December 31 are as follows:

	2022	2021
Balance at the beginning of year	1,116,472	780,581
Settlements	(60,125,979)	(36,036,083)
Interest expense	59,009,507	37,152,555
Foreign exchange effects	-	(780,581)
Balance at the end of year	-	1,116,472

Accrued interest on loans payable as at December 31, 2021 is presented as part of trade payables and other current liabilities (Note 9).

Note 9 - Trade payables and other current liabilities; Provisions for claims

Trade and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2022	2021
Trade payables			
Related parties	18	6,447,378,373	5,973,681,088
Third parties		6,479,529,052	5,661,051,404
		12,926,907,425	11,634,732,492
Accrued expenses			
Repairs and maintenance		1,168,209,089	790,822,056
Landing, takeoff and parking		864,249,816	180,898,715
Airport ground handling		39,728,981	12,172,366
Marketing Costs		26,398,513	-
Accrued interest on lease deferrals	16	18,433,222	37,563,189
Salaries and employee benefits		6,004,414	147,548,115
Accrued interest on loans payable	8	-	1,116,472
Others		8,589,371	24,416,221
		2,131,613,406	1,194,537,134
Refunds		747,498,103	773,403,535
Deposits from travel agents		197,241,418	228,045,825
Payable to government agencies		841,217,673	300,059,685
Output VAT payable		79,407,205	39,215,051
Unpaid capital expenditures		24,605,541	121,262,445
Other claims		13,113,365	11,656,230
		16,961,604,136	14,302,912,397

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertain to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to withholding taxes which are non-interest bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned revenues" in the statement of financial position (Note 23.16).

Provisions for claims

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are individually not material that are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the financial position, results of operations and cash flows of the Company as at and for the years ended December 31, 2022 and 2021.

The movements in provisions for claims for the years ended December 31 are as follows:

	Note	2022	2021
Beginning of the year		330,106,424	330,106,424
Provision during the year	15	392,931,941	-
End of the year		723,038,365	330,106,424

The disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, only a general description is provided.

Critical accounting estimates and assumptions: Provisions for claims

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

Note 10 - Derivative financial instruments

In 2020 and 2019, Capital A Berhad entered into derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. Subsequently in the same years, Capital A Berhad entered fuel derivative contracts with the Company for its related expected fuel consumption (Note 18). The Company's fuel derivatives consist primarily of fixed commodity swaps and options which are based on Brent crude oil price and crack between Brent oil price and jet fuel prices.

The Company designated for hedge accounting the derivative contracts entered for the year ended December 31, 2021.

The net changes in the fair value of all derivative instruments for the year ended December 31, 2021 are as follows:

	Note	
Balance at beginning of the year		(107,360,944)
Net changes in fair value during the year		67,922,422
Fair value of settled derivatives	18	39,438,522
Balance at end of year		-

For the year ended December 31, 2021, no ineffectiveness was recognized in the statement of total comprehensive income.

A net gain of P26.94 million for the year ended December 31, 2021 resulting from the movement in fair value of derivative instruments not designated for hedge accounting is recognized as fair value change in derivatives in the statement of total comprehensive income.

For the year ended December 31, 2021, following the maturity of the hedge contract in April 2021, fair value loss on settled fuel derivative contracts amounting to P39.44 million was charged to profit or loss as part of fuel costs (Note 13).

In 2020, the Company, through Capital A Berhad, restructured Brent swaps originally maturing in April to June 2020. Upon renegotiation, the instruments had various maturity dates from December 2020 to April 2021. Upon maturity date in April 2021, the Company has not further participated in the Capital A Berhad renegotiated hedges.

Following are the details of the restructured swaps:

	Original	Restructured
Notional quantity	35,107 barrels	37,448 barrels
Notional amount	$2,071,310	$2,412,260
Average hedged rate	$59.00	$64.42

Critical accounting estimates and assumptions: Fair value of derivative instruments

The Company's derivative assets and liabilities are carried at fair value, the determination of which requires the use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., forward fuel prices and discount rates), the amount of changes in fair value would differ due to usage of different valuation methodology. Any change in fair value of these derivative instruments would affect directly the statements of comprehensive income.

Note 11 - Equity

The Company's share capital as at December 31, 2022 and 2021 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2022 and 2021, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service providers are required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2022 and 2021, total capital stock of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

(i) the assignment by AWAI of its net receivable from PAAI amounting to P753 million (AWAI Assigned Receivable) to AAI (AAI Additional Receivables);
(ii) the extinguishment of the AWAI's Debt to AAI to the extent of an amount equivalent to the AWAI Assigned Receivables; and
(iii) the assignment of the AAI Additional Receivables to be applied towards the subscription payment for AAI's subscriptions to shares of PAAI out of the PAAI Capital Increase.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

As at reporting date, the Company has yet to update its filings with the Philippine SEC to reflect this change. Meanwhile, the initial application is still pending review and approval by the SEC.

Note 12 - Revenues

Below is the disaggregation of the Company's revenues for the years ended December 31:

	2022	2021
Over time		
Passenger	8,126,447,559	1,691,564,362
Cargo	395,809,263	186,975,260
Other revenues		
Baggage fees	976,601,949	177,982,800
Assigned fees	69,970,588	9,537,816
Rebooking, refunds and cancellation fees	33,017,647	1,174,928
Connection fees	9,033,963	83,515
Others	55,880,020	26,569,757
	9,666,760,989	2,093,888,438
Point in time		
Inflight meals and merchandise	66,888,927	14,139,524
	9,733,649,916	2,108,027,962

Others pertain mainly to unlimited flight pass, expired credit shell, aircraft advertisements, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Contract liabilities

Contract liabilities, recorded as unearned revenues in the statement of financial position, amounting to P2,693,214,084 as at December 31, 2022 (2021 - P1,709,973,301) represent collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

The increase in unearned revenues as at December 31, 2022 is consistent with the commercial operations resumptions as influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

The following table shows the rollforward analysis of contract liabilities for the years ended December 31:

	2022	2021
At January 1	1,709,973,301	1,751,429,101
Additions during the year	11,392,412,054	1,731,553,634
Recognized as revenue	(10,409,171,271)	(1,773,009,434)
At December 31	2,693,214,084	1,709,973,301

Note 13 - Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2022	2021
Fuel cost	10	5,911,884,120	863,171,114
Depreciation and amortization	6, 16	2,296,524,887	2,855,387,278
Repairs and maintenance	4	1,987,148,714	833,059,452
Salaries and employee benefits		1,179,665,483	692,757,037
Aircraft rental	16	1,097,054,920	371,428,318
Airport ground handling		340,518,776	80,309,914
Landing, take-off and parking		522,246,489	145,441,983
Bus rental	16	31,658,121	27,349,948
Custom duties		8,808,602	1,063,146
Others		270,748,201	132,526,805
		13,646,258,313	6,002,494,995

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation system and facilities, and catering charges for in-flight crews.

Note 14 - Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2022	2021
Marketing expenses			
Commission expenses		191,126,283	23,111,263
Promotion and advertising		118,733,063	20,385,605
		309,859,346	43,496,868
General and administrative expenses			
Brand license fee	18, 20	341,115,310	6,546,397
Utilities		250,012,816	237,385,178
Salaries and employee benefits		166,084,553	160,304,072
Outside services	18	163,661,709	200,333,123
Provision for impairment of receivables	3	113,245,601	53,738,898
Repairs and maintenance		75,814,024	73,247,154
Retirement benefit expense	17	74,451,598	17,240,299
Rental of office and equipment	16	65,162,058	37,809,281
Depreciation and amortization	6, 16	63,925,969	78,923,222
Insurance		62,270,465	23,230,558
Training and accommodation		17,064,189	5,839,294
Taxes and licenses		12,164,595	5,167,791
Bank charges		9,104,635	1,609,542
Others		42,546,640	9,639,359
		1,456,624,162	911,014,168
		1,766,483,508	954,511,036

Note 15 - Finance costs and other expenses, net

Finance costs for the years ended December 31 are as follows:

	Notes	2022	2021
Interest expenses on:			
Lease liabilities	16	835,908,831	463,763,955
Loan payable	8	59,009,507	37,152,555
Lease deferrals	16	28,531,703	37,563,189
Retirement benefit obligation	17	16,986,093	13,869,824
Provision for aircraft redelivery	16	12,463,694	8,454,375
Others		39,971,800	53,765,993
		992,871,628	614,569,891

Others include late payment fees charged by certain airport authorities.

Other expenses, net for the years ended December 31 consists of:

	Notes	2022	2021
Foreign exchange loss, net	22	2,459,207,064	1,456,771,240
Provision for claims	9	392,931,941	-
Reversal of impairment of right-of-use assets	6	(963,100,000)	-
Reversal of accruals		(623,468,810)	(286,070,472)
Interest income from bank deposits	2	(73,018)	(108,233)
Gain on maintenance reserve fund (MRF) claims		-	(127,753,031)
Others		(14,078,983)	(44,289,713)
		1,251,418,194	998,549,791

Gain on MRF claims pertain to a cash reimbursement received from engine lessors related to the maintenance costs of engines incurred and paid by the Company in 2019. Final reconciliation and settlement was made by the lessor in October 2021.

In 2022 and 2021, management continuously reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

Note 16 - Leases (the Company as the lessee)

The Company's fleet as at December 31 consists of:

	Note	2022	2021
Airbus A320-200			
Third party lessors		14	17
Related party lessor	18	12	7
		26	24

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to ten (10) years with renewal options. The Company's existing fleet are with lease terms as provided below:

December 31, 2022

	Original lease term (including renewal options)		Restructured in 2022	New lease term (after lease restructuring)	
No. of aircrafts	From	To		From	To
1	2013	2022	No	2013	2022
1	2013	2022	Yes	2022	2025
1	2021	2029	No	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	Yes	2021	2029
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	Yes	2022	2036
1	2021	2031	No	2021	2031
1	2017	2025	No	2017	2025
2	2021	2031	No	2021	2031
2	2018	2025	No	2018	2025
1	2021	2031	No	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2021	2027	No	2021	2027
1	2019	2025	Yes	2021	2031
1	2019	2028	Yes	2022	2028
2	2022	2026	No	2022	2026
26					

December 31, 2021

	Original lease term (including renewal options)		Restructured in 2021	New lease term (after lease restructuring)	
No. of aircrafts	From	To		From	To
2	2013	2022	No	2013	2022
1	2013	2023	Yes	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	No	2016	2023
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	No	2017	2023
1	2017	2025	Yes	2021	2031
1	2017	2025	No	2017	2025
2	2018	2025	Yes	2021	2031
2	2018	2025	No	2018	2025
1	2018	2026	Yes	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2019	2022	Yes	2021	2027
1	2019	2025	No	2019	2025
1	2019	2028	No	2019	2028
24					

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease restructuring and modification

On various dates in 2022 and 2021, through and with the assistance of Capital A Berhad, managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors. In 2022, 5 (2021 - 6) aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

On February 2, 2021, the Company's BOD further resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in 2022 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5.75% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in 2021.

There were no lease side letters approved and entered into for the year ended December 31, 2022.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit of loss. The rental payments not stated in the lease side letter will continue to be due for payment in accordance with the original terms of the lease agreements.

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2022	2021
Balance at beginning of the year		14,613,030,500	12,316,353,273
Additions		829,294,580	-
Interest accretion	15	835,908,831	463,763,955
Modifications		(239,745,449)	1,699,176,651
Lease payments		(397,409,086)	(349,229,409)
Pre-termination of office lease		-	(23,906,502)
Foreign exchange difference		1,588,668,231	506,872,532
Balance at end of the year		17,229,747,607	14,613,030,500

Total amount of rent payments due that was deferred as at December 31, 2022 amounted to P1,048,172,445 (2021 - P1,400,839,060). Movements of the Company's accrued interest on lease deferrals as at and for the years ended December 31 are as follows:

	Notes	2022	2021
Balance at beginning of the year		37,563,189	20,706,775
Interest accretion	15	28,531,703	37,563,189
Payments		(47,661,670)	(20,706,775)
Balance at end of the year	9	18,433,222	37,563,189

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2022	2021
Current	7,684,031,107	6,432,937,373
Non-current	9,545,716,500	8,180,093,127
	17,229,747,607	14,613,030,500

The amount of right-of-use assets recognized in the statement of financial position as at December 31, 2022 amounted to P7.08 billion (2021 - P7.71 billion) (Note 6).

The following are the amounts recognized in statement of total comprehensive income for the years ended December 31:

	Notes	2022	2021
Depreciation of right-of-use assets	6	2,184,699,910	2,737,779,580
Reversal of impairment of right-of-use assets	6	(963,100,000)	-
Interest accretion on lease liabilities	15	835,908,831	463,763,955
Expenses related to short-term leases and low-value assets	13,14	1,193,875,099	436,587,547
Foreign exchange difference		1,588,668,231	506,872,532
		4,840,052,071	4,145,003,614

Short term aircraft and engine leases

In 2022 and 2021, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contract amounted to P1,097,054,920 (2021 - P371,428,318) were charged to profit or loss as part of cost of services.

Hangar and office space

The Company also has existing non-cancellable agreements for its hangar and office space for a period of three (3) years until December 31, 2021. In June 2021, the Company pre-terminated its lease agreement for the office space in Terminal 3 which resulted to a gain of P557,222 recognized as part of other income (expenses), net. Subsequent monthly rentals amounting to P65,162,058 (2021 - P37,809,281) not covered the renewed lease agreement was classified as short-term lease and charged to profit or loss as part of operating expenses. As at December 31, 2022, the Company is in the process of renegotiating the lease agreements with its lessors as it intends to renew the term for another 3 years.

Expenses related to short-term leases also include bus rentals. Leases related to low-value assets pertain to small office equipment.

Rental expenses charged to profit or loss on other leases for the years ended December 31 are as follows:

	Notes	2022	2021
Cost of services	13		
Short term aircraft and engine lease		1,097,054,920	371,428,318
Bus rental		31,658,121	27,349,948
Operating expenses	14		
Office rental		65,162,058	37,809,281
		1,193,875,099	436,587,547

The total cash outflow for leases for the year ended December 31, 2022 amounted to P1,591,284,185 (2021 - P785,816,956).

Provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term.

The rollforward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Notes	2022	2021
Balance at beginning of year		150,444,637	133,519,022
Additions		16,711,620	-
Accretion charged to profit or loss	15	12,463,694	8,454,375
Foreign exchange difference		13,957,208	8,471,240
		193,577,159	150,444,637

Provision for aircraft redelivery is classified in the statements of financial position as at December 31 are as follows:

	2022	2021
Current	39,241,325	41,245,789
Non-current	154,335,834	109,198,848
	193,577,159	150,444,637

Critical accounting estimates and assumptions: Provision for aircraft redelivery costs

Provision for aircrafts redelivery costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The Company considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates and assumptions considering that the aircraft utilization and market conditions of the aircrafts vary. However, it is reasonably possible, on the basis of existing knowledge, that a change in the factors mentioned above would impact the recorded provisions for aircraft and redelivery costs.

Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2022	2021
Aircraft leases	7	690,033,369	653,375,961
Hangar and office space	7	22,361,548	18,454,657
		712,394,917	671,830,618

Critical accounting estimates and assumptions: Incremental borrowing rate - leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's credit rating).

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2021, for certain aircrafts that were restructured, the Company used IBR ranging from 7.84% to 9.29% to measure the restructured lease liabilities. In 2022, for additional restructured aircraft, the Company used IBR ranging from 8.79% to 10.99%

Note 17 - Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

		Minimum requirement (in years)	
Retirement plan	Rate of final monthly salary	Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law*.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2022	2021
Operating expenses			
Current service cost		74,451,598	88,326,257
Curtailment gain		-	(71,085,958)
	14	74,451,598	17,240,299
Interest expense	15	16,986,093	13,869,824
		91,437,691	31,110,123

Curtailment and retrenchment program

Curtailments relate to reduction in number of employees covered by the retirement plan as a result of the separation program undertaken by the Company. On May 6, 2020, the Company's BOD approved the implementation of cost-saving measures reasonably necessary to the business in light of COVID-19 outbreak. This resulted in reduction of its operations including termination of the services of 267 identified employees of the Company effective July 1, 2020.

As a result of the retrenchment of 267 staff effective July 1, 2020, the Company incurred separation costs amounting to P31.69 million which was paid during 2021. These separations costs are presented as part of salaries and employee benefits within cost of services and operating expenses in profit of loss.

Further, on January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees. The separation costs amounting to P55.01 million paid in 2021 were charged to profit or loss as part of salaries and employee benefits within cost of services and operating expenses.

For the year ended December 31, 2021, the Company recognized curtailment gain amounting to P71.08 million which represents benefits earned under the existing programs and other one-time termination benefits.

The movements in the present value of defined benefit obligation for the years ended December 31 are as follows:

	2022	2021
Balance at beginning of year	340,402,674	438,012,516
Current service cost	74,451,598	88,326,257
Interest cost	16,986,093	13,869,824
Benefits paid	(4,674,595)	(2,288,700)
Curtailment gain	-	(71,085,958)
Remeasurement (gain) loss		
Changes in financial assumptions	(106,465,056)	(81,910,122)
Experience adjustments	66,219,704	(44,521,143)
Balances at end of year	386,920,418	340,402,674

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2022	2021
Balances at beginning of year	94,207,472	(32,223,793)
Remeasurement gain	40,245,352	126,431,265
	134,452,824	94,207,472

The principal actuarial assumptions used for the years ended December 31 are as follows:

	2022	2021
Discount rate	7.11%	4.99%
Salary increase rate	5.00%	5.00%

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2022 and 2021.

- Salary increase rate - This is the expected long-term average rate of salary increase taking into account of inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2022	2021
Less than 1 year	25,108,551	19,742,064
More than 1 year and up to 5 years	85,878,525	83,979,624
More than 5 years and up to 10 years	154,039,145	154,250,116
More than 10 years and up to 15 years	352,039,428	276,267,081
More than 15 years and up to 20 years	706,976,981	782,557,568
More than 20 years	9,438,178,140	6,564,271,314

The weighted average duration of the defined benefit obligation as at December 31, 2022 and 2021 is 22 years.

Critical accounting estimates and assumptions: Principal assumptions for estimation of retirement benefit obligation

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as at December 31 are as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
2022			
Discount rate	+/-1%	(28,645,100)	39,214,479
Salary increase rate	+/-1%	38,405,521	(28,608,031)
2021			
Discount rate	+/-1%	(51,520,415)	65,928,734
Salary increase rate	+/-1%	63,505,171	(50,814,760)

The foregoing sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change as compared to the previous period.

Note 18 - Related party transactions and balances

The Company the following transactions with its related parties for the years ended December 31:

	Transactions		
	2022	2021	Terms and conditions
(a) Aircraft lease agreements *Entities under common shareholder*	1,081,352,649	2,366,256,082	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common shareholder, for the lease of the Company's passenger aircraft. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor. However, in 2021 and 2022 as part of lease restructuring, some of the aircraft transferred to the third-party lessor reverted back to related party lessors. Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 16).
(b) Collections made by (on behalf of) related parties, net *Entities under common shareholder*	3,089,918,234	16,332,134	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. Collections made by related parties are initially recognized as contract liability by the Company. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.
(c) Intercompany charges to (from), net *Entities under common shareholder*	212,771,278	2,378,819,663	These relate to operating expenses incurred by (for) related parties on behalf of (by the) Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These also included refunds made by related parties on behalf of the Company. These are billed by (billed to) the Company at cost.
(d) Shared service agreement *Entity under common shareholder*	51,165,281	115,904,812	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services (Notes 14). These are charged to profit of loss as part of outside services.

	Transactions 2022	2021	Terms and conditions
(e) Settled fuel derivative contracts *Entity under common shareholder*	-	39,438,522	Capital A Berhad enters into Brent and Crack derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. For the years ended December 31, 2020 and 2019, Capital A Berhad entered into fuel derivative contracts with the Company for its related expected fuel consumption (Notes 10). Amounts of settled hedges are charged to profit or loss as part of fuel costs.
(f) Brand licensing agreement *Shareholder of the Parent Company*	341,115,310	6,546,397	Please see related discussions in Note 20.
(g) Loan and interest payments made on behalf of a related party *Parent Company*	-	969,294,000	In 2021, the Company has made loan principal and interest repayments on behalf of its Parent Company.
(h) Maintenance service contract *Entity under common shareholder*	219,836,696	-	In 2022, the Company entered into a contract with ADE to be one of its MRO provider to perform aircraft checks and maintenance. In addition, ADE also provide aircraft spares and consumables to the Company.
(i) Marketing costs *Entity under common shareholder*	58,208,801	7,675,454	These pertain to marketing costs charged by AirAsia Com Travel Sdn Bhd (AACOM) which is AirAsia Group's online distributor and marketing arm. AACOM provides marketing, advertising, sales and promotional activities for the AirAsia Group and owns and operates the online platform, airasia.com website.
(j) Key management compensation			Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. Key management personnel are also entitled to retirement benefits.
Salaries	62,596,500	63,816,286	
Other short-term employee benefits	11,700,000	8,437,634	
Retirement benefits	31,097,835	29,113,535	
	105,394,335	101,367,455	

The Company's outstanding related party balances as at December 31 in connection with the aforementioned transactions are as follows:

	Ref	2022	2021	Terms and conditions
Trade and other receivables *Entities under common shareholder (Note 3)*	b	78,004,960	93,472,975	These are unsecured, unguaranteed and non-interest bearing, with terms of 30 t0 60 days.
Due from related parties *Parent Company*	g	1,334,214,149	1,333,491,407	These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Entity under common shareholder	c	-	464,898,378	
		1,334,214,149	1,798,389,785	

(26)

	Ref	2022	2021	Terms and conditions
Trade and other payables				These are unsecured, unguaranteed, and non-interest bearing, with terms of 30 to 60 days (Note 9).
Entities under common shareholder	a,b, c,d,e,f, h,i	4,784,515,271	4,327,996,349	
Entity under common control		752,582,847	752,976,040	In 2022, a shareholder affirmed that it will exercise restraint from calling on the net liabilities due from the Company until December 31, 2023. This restraint will however change once the Company's financial position has improved (Note 1).
Parent Company		910,280,255	892,708,699	
		6,447,378,373	5,973,681,088	
Due to a related party				These are unsecured, unguaranteed, non-interest bearing and payable on demand.
Parent Company		11,000,199,599	10,476,727,516	

Suretyship and guarantees

There are no collaterals held or guarantees issued by the Company with respect to related party transactions and balances. AAI continues to provide suretyship as security for the Company's credit line facility with BDO which is also secured by corporate guarantee of Capital A Berhad (Note 8).

As at December 31, 2022 and 2021, no obligations have been incurred by the aforementioned related parties in relation to this agreement.

Service agreement

In 2014, the Company entered into a service agreement with AA SEA for finance, accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services.

The Service Agreement is effective for a period of three (3) years and may be terminated by either party for any material breach, in the event that the Company terminates its operations, or if AA SEA is not able to provide the agreed services. In 2018, the Service Agreement was extended for another period of three (3) years until December 31, 2021. As at December 31, 2022, the Company is in the process of renewing the terms of this service agreement with the related party, but intends to renew for another three (3) years.

Fees charged by AA SEA are based on actual cost of manpower required plus a certain mark-up. These are included in operating expenses as part of outside services account in the statement of total comprehensive income.

Critical accounting judgment: Recoverability of amounts due from related parties

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The determination of ECL is initially based on the Company's historically observed default rates adjusted to forward looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

As at December 31, 2022 and 2021, management believes that the amounts due from related parties are recoverable.

Note 19 - Income taxes

There is no provision for current income tax recognized for the years ended December 31, 2022 and 2021 following the Company's gross loss and net loss positions.

The reconciliation of provision for income tax computed at the statutory income tax rate for the years ended December 31 to the income tax expense as shown in the statements of comprehensive income follows:

	2022	2021
Income tax benefit at statutory rate of 25%	(1,980,845,432)	(1,608,788,694)
Adjustments for:		
Tax expense from unrecognized DIT asset on net operating loss carry-over (NOLCO)	1,742,247,446	574,911,338
Movement in unrecognized deferred income tax (DIT) assets	238,612,589	623,792,923
Non-deductible expenses	3,651	5,412
Interest income subject to final tax	(18,254)	(27,058)
Effects of income tax changes	-	410,106,079
	-	-

DIT assets are determined using income tax rates in the period the temporary differences, NOLCO and MCIT are expected to be recovered or settled. Unrecognized DIT assets as at December 31 are as follows:

	Notes	2022	2021
NOLCO		14,677,653,907	7,708,664,124
Unrealized foreign exchange loss		2,484,282,772	1,475,401,805
Leases	6	1,611,623,892	1,339,025,815
Allowance for doubtful accounts	3	1,406,552,846	1,293,307,245
Provision for contingencies	9	392,931,941	-
Retirement benefit obligation	17	386,920,418	340,402,674
Provision for aircraft redelivery costs	16	193,577,159	150,444,637
Provision for impairment of ROU assets	6	-	963,100,000
		21,153,542,935	13,270,346,300
DIT effect at 25%		5,288,385,734	3,317,586,575
Excess minimum corporate income tax (MCIT)		-	95,091,782
Unrecognized DIT assets		5,288,385,734	3,412,678,357

Movement of unrecognized deferred tax assets charged to other comprehensive income for the years ended December 31 and therefore not forming part of the reconciliation above follows:

	Note	2022	2021
Remeasurement gain on retirement obligation	17	40,245,352	126,431,265
Tax rate		25%	25%
Tax effect		10,061,338	31,607,816

In compliance with the Tax Reform Act (the "Act") of 1997, NOLCO for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

Pursuant to Section 4 of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

Details of the Company's NOLCO as at December 31 are as follows:

Year loss was incurred	Year of expiration	2022	2021
2018	2021	-	652,131,956
2020	2025	5,979,617,005	5,979,617,005
2021	2026	1,729,047,119	1,729,047,119
2022	2025	6,968,989,783	-
		14,677,653,907	8,360,796,080
Expired during the year		-	(652,131,956)
		14,677,653,907	7,708,664,124
Tax rate		25%	25%
Unrecognized DIT asset on NOLCO		3,669,413,477	1,927,166,031

In compliance with the Act, the Company shall pay the greater of MCIT, which is 1%of gross income as defined under the Act, and the normal income tax. Any excess of MCIT over the normal income tax shall be carried forward for the next three consecutive taxable years immediately following the period such MCIT was paid.

Details of the Company's MCIT at December 31 are as follows:

Year paid	Year of expiration	2022	2021
2018	2021	-	10,331,348
2019	2022	95,091,782	95,091,782
		95,091,782	105,423,130
Expired during the year		(95,091,782)	(10,331,348)
Unrecognized DIT asset on excess MCIT		-	95,091,782

Critical accounting judgement: Determination of current and deferred income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The income tax expense is determined based on assessment income and expense are taxable and deductible, respectively. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

Realization of the future tax benefit related to DIT assets is dependent on the Company's ability to generate future taxable income during the periods in which these are expected to be recovered. Management has considered these factors in reaching a conclusion to not recognize any of its DIT assets in the statement of financial position.

Passage of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, the president signed into law Republic Act No. 11534 or the CREATE Act, which is the reconciled version of the Bicameral Conference Committee. It settled the disagreeing provisions of House Bill No. 4157 and Senate Bill No. 1357. The CREATE Act was previously known as the Corporate Income Tax and Incentives Reform Act (CITIRA) bill. The law became effective on April 11, 2021.

Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. Reduction in CIT rate effective July 1, 2020 as follows:
   a. Domestic corporations will be subject to the following reduced CIT rates depending on their assets and taxable income:
      i. Those with assets amounting to P100,000,000 and below, and with taxable income equivalent to P5,000,000 and below will be subjected to a 20% tax rate; and
      ii. Those with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate.
   b. Foreign corporations (resident and nonresident foreign corporations) will have a fixed reduced tax rate of 25%.
2. Effective July 1, 2020 until June 30, 2023, the minimum corporate income tax rate shall be 1%.

Under CREATE, the Company prepared its annual income tax return for the years ended December 31, 2022 and 2021 using the updated rate of 25%.

For financial reporting purposes, the enactment of CREATE after December 31, 2020 was deemed a non-adjusting subsequent event in the December 31, 2020 financial statements. Hence, effect of changes in the tax rates applied is reflected in the income tax reconciliation for the year ended December 31, 2021.

Note 20 - Commitments

Brand License Agreement

On December 16, 2010, AirAsia Berhad (AAB or Licensor) and AAI (Licensee) entered into a Brand License Agreement (BLA). The BLA provides the Licensee a non-exclusive and non-assignable license to reproduce and use the AirAsia Brand: (a) in and for the purpose of Business Operations; (b) under the Permitted Name (including to adopt it as the Licensee's corporate name for the duration of the BLA); (c) in accordance with the AirAsia Branding Guidelines; and (d) in and for the purpose of Marketing Communications.

Pursuant to the BLA, the Licensee shall comply at all times with the recommendations made by the Licensor in respect of the use of the AirAsia Brand. The Licensee shall also use the AirAsia brand in accordance with all mandatory standards, specifications and operating procedures and other obligations contained in the Licensor's procedures manual, subject to applicable laws. The BLA provides that nothing in the agreement shall be construed to give control over the services and licensed flights to the Licensor. The Licensee shall have the technical and operational control of the aircraft used for the business operations and shall comply with all applicable laws governing such activity, including, as a minimum, those specified by the relevant competent authorities, and shall have the final authority concerning the operation, maintenance and safety of the aircraft and its passengers and crew.

The BOD of AAI has the power to amend and/or revise the BLA upon agreement with the Licensor under Clause 27.1 of the BLA.

On January 1, 2013, AAB and AAI entered into an addendum to the BLA wherein AAB granted AAI a limited authority to sub-license the AirAsia Brand to the Company for a period of six (6) months effective from September 26, 2013, subject to renewal option.

On January 4, 2017, the Company, AAB and AAI entered into an Amendment and Extension Agreement of the BLA. Amendments to the 2010 BLA includes the following:

- The BLA was amended to include the Company as a Licensee
- Ratification of the effectivity of the BLA which was extended for another five (5)-year term from December 16, 2015 to December 15, 2020; and,
- The Company and AAI have undertaken to comply at all times, insofar as feasible and permissible under the laws of the Philippines, with the recommendations made by AAB under the BLA.

On May 2, 2019, an amendment was executed which provided for the effectivity of the BLA for five (5) years from January 2019; and automatic extension for five (5) years by mutual agreement by AAB and the Company.

Further in 2021, AAB recalibrated the BLA charge rates across the entities in using the AirAsia Brand and reduced the license fee equivalent to 0.35% (2020 - 1.75%) of revenue per annum. The Company shall also pay the Licensor additional marketing cost as may be agreed between the parties and allocated as Licensee's contribution.

In 2022, the AAB reverted the license fee rate from 0.35% to 1.75%, with retrospective effect from 2020. The Company will still be liable to settle any marketing costs that may be agreed between the parties and allocated as Licensee's contribution. In addition, AA SEA management fees will be reduced to minimal coverage as a result of this change.

For the year ended December 31, 2022, brand license fees charged to profit or loss amounted to P341.1 million (2021 - P6.5 million) (Note 18).

Note 21 - Significant judgments, use of estimates and assumptions

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

21.1 Critical accounting estimates and assumptions

- *Allowance for impairment loss on trade receivables (Note 3)*
- *Impairment of ROU assets (Note 6)*
- *Provisions for claims (Note 9)*
- *Fair value of derivative instruments (Note 10)*
- *Provision for aircraft redelivery costs (Note 16)*
- *Incremental borrowing rate - leases (Note 16)*
- *Principal assumptions for estimation of retirement benefit obligation (Note 17)*

21.2 Critical accounting judgments

- *Assessment of the Company's ability to continue as a going concern (Note 1)*
- *Determination of net realizable value of expendable parts, materials and supplies (Note 4)*
- *Recoverability of property and equipment (Note 6)*
- *Recoverability of amounts due from related parties (Note 18)*
- *Determination of current and deferred income taxes (Note 19)*
- *Determination of functional currency (Note 22)*

Note 22 - Financial risk and capital management

22.1 Financial risk factors

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, due from related parties, refundable deposits, trade and other liabilities (excluding amounts payable to government agencies and agent deposits), lease liabilities and loans payable. The main purpose of these financial instruments is to finance the Company's operations. The Company also enters into fuel derivative transactions to manage its exposure to fuel price risks arising from the Company's operations.

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risks (particularly foreign exchange risk, interest rate risk and fuel price risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company has no significant financial assets and liabilities exposed to other market risks such as price risk.

Financial risk management is carried out by a Company's local finance team under policies approved by the BOD and its shareholders. These policies focus on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets. The Company does not engage in the trading of financial assets for speculative purposes.

22.2 Components of the Company's financial assets and liabilities

Details of the Company's financial assets at amortized cost as at December 31 are as follows:

	Notes	2022	2021
Cash	2	84,042,572	41,855,266
Trade and other receivables	3	1,678,402,467	1,415,602,385
Due from related parties	18	1,334,214,149	1,798,389,785
Deposits	7	882,170,456	760,612,601
		3,978,829,644	4,016,460,037

Trade and other receivables as at December 31, 2022 are presented gross of allowance for impairment of receivables amounting P1,406,552,846 (2021 - P1,293,307,245) and exclude other receivables which consist mainly of advances to employees which are subject to liquidation amounting to P17,043,115 (2021 - P27,597,306) (Note 3).

Spares and maintenance deposit as at December 31, 2022 amounting to P13,030,169 (2021 - P24,986,595) is considered non-financial asset.

Details of the Company's financial liabilities at amortized costs as at December 31 are as follows:

	Notes	2022	2021
Trade and other payables	9	15,843,737,840	13,735,591,836
Due to a related party	18	11,000,199,599	10,476,727,516
Loans payable	8	1,047,924,325	974,229,767
Lease liabilities	16	17,229,747,607	14,613,030,500
Provision for aircraft redelivery costs	16	193,577,159	150,444,637
		45,315,186,530	39,950,024,256

Trade and other payables presented above exclude the following non-financial liabilities as at December 31:

	Note	2022	2021
Deposits from travel agents		197,241,418	228,045,825
Payable to government agencies		841,217,673	300,059,685
Output VAT payable		79,407,205	39,215,051
	9	1,117,866,296	567,320,561

Provisions for claims as at December 31, 2022 amounting to P723,038,365 (2021 - P330,106,424) are considered non-financial liabilities.

22.3 Credit risk

Credit risk refers to the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Significant changes in the economy, that may represent a concentration in the Company's business, could result in losses that are different from those provided for at reporting dates.

Credit risk arises from cash deposits with banks, as well as credit exposure on trade and other receivables, due from related parties and deposits from other counterparties. The Company's maximum exposure is equal to the fair value of these financial assets. The fair values of these financial assets approximate their net carrying amounts.

Provision for impairment of financial assets are determined using ECL. A credit loss is the difference between the contractual cash flows to which the Company is entitled and the cash flows expected by the Company. Since the ECL takes into account the amount and timing of payments, a credit loss may also occur if the Company expects payment to be made in full, but later than the contractually agreed date.

ECL is determined through a three-stage general approach. In accordance with the three-stage model, debt instruments measured at amortized cost are initially recognized in Stage 1. The expected loss is equal to the loss that may occur due to possible default events in the twelve months following the reporting date. Financial assets that have experienced a significant increase in credit risk of the counterparty since initial recognition are transferred from Stage 1 to Stage 2. A significant increase includes situations in which debtors are no longer able to meet their payment obligations at short notice or when it appears that the debtor has experienced an actual or expected deterioration in business performance. The credit risk can then be measured using the probability of default over the instrument's lifetime. The impairment loss is equivalent to the loss that may occur due to possible default events during the remaining term of the financial asset. If there is objective evidence that a financial asset is impaired, it must be transferred to Stage 3.

The Company has the following financial assets as at December 31 where the ECL model has been applied:

	Gross carrying amount	Credit risk Stage 1	Stage 2	Stage 3	Loss allowance	Net carrying amount
2022						
Cash in banks	81,999,916	81,999,916	-	-	-	81,999,916
Trade and other receivables	1,678,402,467	205,877,682	65,971,939	1,406,552,846	(1,406,552,846)	271,849,621
Due from related parties	1,334,214,149	1,334,214,149	-	-	-	1,334,214,149
Deposits	882,170,456	882,170,456	-	-	-	882,170,456
	3,976,786,988	2,504,262,203	65,971,939	1,406,552,846	(1,406,552,846)	2,570,234,142

	Gross carrying amount	Credit risk Stage 1	Stage 2	Stage 3	Loss allowance	Net carrying amount
2021						
Cash in banks	40,139,266	40,139,266	-	-	-	40,139,266
Trade and other receivables	1,415,602,385	1,224,859	121,070,281	1,293,307,245	(1,293,307,245)	122,295,140
Due from related parties	1,798,389,785	1,798,389,785	-	-	-	1,798,389,785
Deposits	760,612,601	760,612,601	-	-	-	760,612,601
	4,014,744,037	2,600,366,511	121,070,281	1,293,307,245	(1,293,307,245)	2,721,436,792

Credit quality of the Company's financial assets

Cash in banks

To minimize credit risk exposure from cash in banks, the Company maintains cash deposits in reputable banks. For balances with banks and financial institutions, credit risk is managed in accordance with the Company's policy. Counterparty limits are reviewed and approved by the Company's BOD and are updated when necessary. Cash are placed in various local banks that have good reputation and low probability of insolvency.

Amounts deposited in these banks as at December 31 are as follows:

	2022	2021
Universal	67,322,098	33,211,837
Commercial	14,677,818	6,927,429
	81,999,916	40,139,266

The remaining balance of cash as presented in the statements of financial position as at December 31, 2022 amounting to P2,042,656 (2021 - P1,716,000), represent cash on hand, which is not exposed to credit risk.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit quality of trade and other receivables are further classified and assessed by reference to historical information about each counterparty's historical default rates). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Stage 1 - Customer balances without history of default and assessed to be fully recoverable.
Stage 2 - Customers with some defaults in the past. All defaults were fully recovered.
Stage 3 - Individual assessed customer with defaults and which the Company no longer expects to recover the balance despite its collection efforts. Loss rates applied for outstanding amounts in this stage is 100%.

Due from related parties

Due from related parties arise mainly from advances and payments made by the Company on behalf of its related party. These collectible on demand and therefore, expected credit losses are based on the assumption that repayment of balances outstanding are demanded at the reporting date.

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of the related party, the Company has assessed that the outstanding balances are exposed low credit risk. Expected credit losses on these balances have therefore been assessed to be insignificant.

Deposits

Deposits that are neither past due nor impaired consist primarily of amounts related to the Company's aircraft leases which are fully collectible at the end of the lease term.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2022 and 2021.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk management implies maintaining sufficient cash, timely collection of receivables from customers, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of its underlying business, the Company aims to maintain flexibility in funding by keeping track of daily cash sales collections and maintaining committed credit lines available with local banks. The Company also obtains funding from its shareholders as well as other third-party banking institutions, as necessary, to finance its operations and working capital requirements.

The amounts disclosed are the contractual undiscounted cash flows. Amounts due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The tables below analyze the Company's financial liabilities as at December 31 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

	Due and demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
2022					
Trade and other payables	-	15,843,737,840	-	-	15,843,737,840
Due to a related party	11,000,199,599		-		11,000,199,599
Loans payable	-	113,604,765	934,319,560	-	1,047,924,325
Lease liabilities, gross	-	8,578,880,020	9,316,924,920	3,565,962,184	21,461,767,124
Provision for aircraft redelivery costs	-	39,241,325	154,335,834	-	193,577,159
Future interest payable on loans	-	57,381,843	61,659,522	-	119,041,365
	11,000,199,599	24,632,845,793	10,467,239,836	3,565,962,184	49,666,247,412
2021					
Trade and other payables	-	13,735,591,836	-	-	13,735,591,836
Due to a related party	10,476,727,516	-	-	-	10,476,727,516
Loans payable	-	974,229,767	-	-	974,229,767
Lease liabilities, gross	-	6,997,763,884	6,678,156,935	3,430,993,027	17,106,913,846
Provision for aircraft redelivery costs	-	41,245,789	109,198,848	-	150,444,637
Future interest payable on loans	-	37,152,555	-	-	37,152,555
	10,476,727,516	21,785,983,831	6,787,355,783	3,430,993,027	42,481,060,157

22.5 Market risk

a) *Foreign currency exchange risk*

Foreign currency exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company closely monitors changes in foreign exchange rates and records any exchange gains or losses in profit or loss. Most of the Company's transactions are carried out in Philippine Peso. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in United States Dollar (USD), Chinese Yuan (CNY) and Korean Won (KRW).

The Company manages its foreign currency exchange risk through minimizing transactions in foreign currency and maintaining sufficient cash in foreign currency to cover its maturing obligations denominated in foreign currency.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 are as follows:

	2022			2021		
	USD	CNY	KRW	USD	CNY	KRW
Cash	$140,702	¥993,329	₩84,466,581	$56,162	¥292,557	₩30,975,254
Trade and other receivables	23,022,139	4,326,818	2,553,036,420	22,691,900	-	2,431,061,501
Deposits	12,926,876	6,200,000	490,068,667	13,321,076	6,200,000	-
	36,089,717	11,520,147	3,127,571,668	36,069,138	6,492,557	2,462,036,755
Trade and other payables	(247,505,161)	(55,217,858)	(723,955,985)	(87,928,728)	(5,535,476)	(1,630,357,043)
Due to a related party	(114,216,000)	-	-	(114,216,000)	-	-
Loans payable	(18,842,727)	-	-	(19,090,909)	-	-
Lease liabilities	(309,831,822)	-	-	(286,355,501)	-	-
Provision for aircraft redelivery costs	(3,709,496)	-	-	(2,948,098)	-	-
	(694,105,206)	(55,217,858)	(723,955,985)	(510,539,236)	(5,535,476)	(1,630,357,043)
Net foreign currency assets (liabilities)	($658,015,489)	(¥43,697,711)	₩2,403,615,683	($474,470,098)	¥957,081	₩831,679,712
Exchange rates at December 31	55.61	8.07	0.04	51.03	8.01	0.04
Philippine Peso equivalent	(P36,592,241,343)	(P352,640,528)	P96,144,627	(P24,212,209,101)	P7,666,219	P33,267,188

Details of net foreign exchange loss charged to profit or loss for the years ended December 31 are as follows:

	2022	2021
Realized foreign exchange gain	25,075,708	18,630,565
Unrealized foreign exchange loss	(2,484,282,772)	(1,475,401,805)
	(2,459,207,064)	(1,456,771,240)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's loss before tax as at December 31:

2022				2021			
Change in foreign exchange rates	USD	CNY	KRW	Change in foreign exchange rates	USD	CNY	KRW
+0.28%	102,458,276	987,393	(269,205)	+0.55%	107,321,472	38,464	215,001
-0.28%	(102,458,276)	(987,393)	269,205	-0.55%	(107,321,472)	(38,464)	(215,001)

(36)

The reasonable possible changes in foreign exchange rates in 2022 and 2021 used in the sensitivity analyses were determined based on average movement in the monthly exchange rates during the reporting periods.

Critical accounting judgment: Determination of functional currency

The Company's booking revenues are in various currencies. Bank loans and certain costs, including fuel, repairs and leases are incurred in US$, while some costs and expenses (e.g., salaries and wages) are in Philippine Peso. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

Management determined that Philippine Peso is the functional currency for the Company, after considering the criteria stated in PAS 21.

b) *Interest rate risks*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

As at December 31, 2022 and 2021, the Company's loans payable is subject to floating interest rate. As such, the Company is only exposed to cash flow interest rate risk.

If interest rates increase/decrease by 100 basis points (all other variables held constant), loss before income tax for the year ended December 31, 2022 would have been P10.48 million higher/lower (2021 - P9.74 million higher/lower).

22.6 Fair value estimation

As at December 31, 2022 and 2021, the carrying amounts of the Company's cash, trade and other receivables, due from related parties, trade payables and other current liabilities and due to a related party approximate their fair values due to the short-term nature of these financial instruments. The fair value of the Company's long term financial assets and liabilities also approximate its carrying values as the nominal interest rates approximate market interest rates.

22.7 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital (Note 1). In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements (Note 8).

Total capital being managed by the Company is equal to the total capital deficiency as shown in the statements of financial position excluding reserve for remeasurements on retirement benefit obligation.

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

23.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations of the Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC), which have been approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost basis, except for the derivatives on hedge that are measured at fair values.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 21.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

There are no new standards and amendments to existing standards effective for annual periods beginning January 1, 2022 that are considered relevant to the Company.

(b) New and amended standards not yet adopted by the Company

A number of new standards and amendments are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the financial statements. None of these standards are expected to be relevant on the financial statements of the Company, except for the following:

- *PAS 1 - Classification of liabilities as current or non-current*

  The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what the standard means when it refers to the "settlement" of a liability.

  The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 1 and PFRS Practice Statement 2 - Disclosure of accounting policies*

  The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 8 - Definition of accounting estimates*

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 12 - Deferred tax related to assets and liabilities arising from a single transaction*

  The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

  a. right-of-use assets and lease liabilities, and
  b. decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

  The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate. PAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

23.2 Financial instruments

23.2.1 Financial assets

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and (b) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company's financial assets under category (b) includes cash in banks, trade and other receivables (Note 3), due from related parties (Note 18) and deposits except for spares and maintenance deposits (Note 7).

Financial assets are included in current assets, except when these are expected to be received or realized more than twelve (12) months after the financial reporting date which are classified as non-current assets.

Recognition and measurement

The Company recognizes a financial asset in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Regular-way purchases and sales of financial assets are recognized on trade date - the date on which the Company commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Trade receivables are measured at the transaction price determined under PFRS 15.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the Company classifies its debt instruments financial assets are as follows:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income/(expense), net.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in other income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/(expenses).

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other income/(expenses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Loss allowances of the Company are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

The Company applies the general approach to provide for ECLs on its financial assets. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

<u>Measurement of ECLs</u>

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

<u>Credit-impaired financial assets</u>

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off and recovery

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss.

23.2.2 Financial liabilities

Classification

The Company classifies its financial liabilities in the following categories: (i) financial liabilities at fair value (including financial liabilities held for trading and those that are designated at fair value) and (ii) financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities under category (i) includes derivative liabilities (Note 10). The Company's financial liabilities at amortized cost includes trade payables and other liabilities (excluding payable to government agencies, output VAT payable and deposits from travel agents), lease liabilities, loans payables and due to related parties.

These are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non-current liabilities.

The Company's financial liabilities are disclosed in Note 22.

Initial recognition and subsequent measurement

The Company recognizes a financial liability in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial liabilities at amortized cost are initially measured at fair value net of transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

Derecognition

Financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

23.2.3 Derivative financial instruments

The Company uses derivative financial instruments, such as swaps and options, to hedge its fuel price risks. Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

As at and for the years ended December 31, 2022 and 2021, the Company did not have fair value hedges and net investment hedges.

Cash flow hedge

Effective January 1, 2019, the Company designated the derivative contracts as cash flow hedges. In cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any accumulated OCI of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the accumulated OCI of hedging that were reported in equity are immediately reclassified to profit or loss.

23.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. The Company has no existing offsetting arrangements as at December 31, 2022 and 2021.

23.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities take into account non-performance risk, which is the risk that the entity will not fulfil an obligation.

23.5 Cash

Cash includes cash on hand and deposits held at call with banks. These are carried in the statement of financial position at face amount or at nominal amount, which approximates its amortised cost using the effective interest rate method. Cash in banks earn interest at prevailing bank deposit rates.

23.6 Receivables

Trade receivables arising from regular sales with an average credit term of approximately 30 days are measured initially at transaction price plus transaction costs, which approximates the original invoice amount, and subsequently measured at amortized cost less any provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

The relevant policies on classification, recognition, measurement, impairment and derecognition are further disclosed in Note 23.2.

23.7 Expendable parts, materials and supplies

Expendable parts, materials and supplies which are essentially the Company's inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises of all costs of purchases and other costs incurred in bringing it to their present location and condition attributable to purchase of these inventories. Cost of these inventories is further reduced by provision for inventory obsolescence, if any.

Expendable parts, materials and supplies are derecognized in the statement of financial position when consumed or written-off. When inventories are consumed, the carrying amount of these expendable parts, materials and supplies is recognized as an expense.

23.8 Prepaid expenses and other assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Advances to suppliers represent advance payments to suppliers relating to importation of goods purchased and payments to contractors for acquisition of capital equipment that require certain percentage of down payments. These are recognized at fair value, which approximate the suppliers' invoice amounts, and subsequently capitalized as inventories or property and equipment when the related goods or equipment have been delivered.

Prepayments and advances to suppliers are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date which are classified as non-current assets.

Other assets in the form of CWTs and input VAT represent taxes imposed on the Company for the acquisition of goods and services. These are stated at face value less any provision for impairment and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Input VAT are included in current assets, except when utilization and claims against output VAT are expected to be more than twelve (12) months after the reporting date, in which these are classified as non-current assets.

23.9 Property and equipment

Property and equipment are recognized at cost upon initial recognition. Cost includes the purchase price and expenditure that is directly attributable to the acquisition of the items including the cost of bringing the assets to its location and working condition.

Following the initial recognition at cost, all items of property and equipment are subsequently measured at cost less accumulated depreciation, amortization and any impairment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated using the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful lives, as follows:

	Number of years
Motor vehicles	5
Office furniture and fixtures	5
Aircraft support machinery and equipment	5 to 10

Leasehold improvements are amortized over the lease period or useful lives of 10 years, whichever is shorter.

The assets' useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. When assets are derecognized, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognized in profit or loss.

23.10 Aircraft redelivery costs

Provision for aircraft redelivery costs arose from the Company's obligation, under its operating lease contracts, to bear certain costs of restoration, among others, at the time of the scheduled redelivery of the aircraft. A corresponding asset is recognized as part of property and equipment. Redelivery costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and is recognized in the statement of comprehensive income under "Interest expense" account. The estimated future costs of redelivery are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the statement of income.

23.11 Impairment of non-financial assets

Non-financial assets, such as property and equipment (including the right-of-use assets) and prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.12 Trade payables and other liabilities

Accounts payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using effective interest method. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are derecognized when the obligation under the liability is discharged, canceled or expired.

23.13 Borrowings and borrowing costs

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of total comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Borrowings are derecognized when the obligation is settled, paid or discharged.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to operations in the year in which these are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are recorded as property and equipment, as applicable. All other borrowing costs are expensed in the period they occur.

As at December 31, 2022, and 2021, there are no borrowing costs directly attributable to the construction of a qualifying asset.

23.14 Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are classified in the consolidated financial position as part of property and equipment.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Number of years
Passenger aircraft	4 to 12
Engines	5
Office	3

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets consist mainly for bus rental and office space, which are recognized as expense on a straight-line basis over the lease term.

23.15 Equity

Share capital

The Company's share capital consists of common shares and preferred shares. Capital stock is measured at par value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of any tax effects.

Preferred shares that are not redeemable or are redeemable at the option of the Company and where payment of dividends is discretionary are classified as equity.

Deficit

Deficit represents accumulated losses of the Company less dividends declared if any, and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The Company is in a deficit position as at December 31, 2022 and 2021. Hence, there are no declarable dividends.

23.16 Revenue

The Company is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Company expects to be entitled to. The specific recognition criteria for each type of revenue are as follows:

Passenger, cargo and other revenues

Passenger, cargo and other revenues (e.g., baggage fees, rebooking fees and other auxiliary income) are recognized over time when the services are rendered (i.e., when the passenger or cargo is lifted), and when applicable, are stated net of discounts. Collections for which services have not been rendered are recognized as contract liability (referred to herein as 'Unearned revenue'). Unearned revenue from passenger ticket are recognized as revenue once the service has been rendered based on the terms and conditions of the ticket.

Sales of in-flight meals and merchandise

Other revenues pertaining to sale of inflight meals and merchandises are recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

23.17 Other income

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method when it is determined that such income will accrue to the Company.

Other income

All other income is recognized when earned or when the right to receive payment is established.

23.18 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities (or unearned revenues)

A contract liability (presented as Unearned revenues in the statement of financial position) is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Contract liabilities mainly consists of unearned revenues arising from collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

23.19 Costs and expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These are presented in the statements of total comprehensive income according to function of such costs and expenses.

Cost of services

Cost of services represents costs incurred in relation to Company's inflight services. These costs include fuel, staff costs for its flight and ground crews, depreciation of aircraft fleet and ground handling related costs.

Operating expenses

Costs of day-to-day operations are generally expensed when incurred.

23.20 Employee benefits

Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured using their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Retirement benefit obligation

The Company recognized retirement benefit obligation computed based on a defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term Philippine treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on the PHP BVAL Reference Rates adjusted based on the average durations of the benchmark government bonds as at the valuation date, considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Defined benefit cost is comprised of the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Current and past service costs are recognized immediately in profit or loss.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account remeasurement gains (losses) on retirement plans are not reclassified to statement of income in subsequent periods.

Curtailment gain or loss resulting from the reduction in number of employees covered by the plan are recognized immediately in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

23.21 Current and deferred income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (net operating loss carryover or NOLCO) and tax credits (MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses and tax credits can be utilized.

DIT liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

DIT and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

DIT expense or credit is recognized for changes in DIT assets and liabilities during the reporting period. Income tax expense includes income tax as currently payable and those deferred because of temporary differences in the financial and tax reporting bases of assets and liabilities, and unused tax losses and tax credits.

No deferred income tax assets were recognized for temporary differences as management believes that it will not be able to generate sufficient taxable profit to allow for the benefits of the deferred income tax assets to be utilized in the near future. The Company reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

23.22 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among entities which are under control with the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

23.23 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

23.24 Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

23.25 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are prepared in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of total comprehensive income.

23.26 Events after the financial reporting date

Any post year-end event up to the date of the approval of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the financial statements.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Based on the duly filed returns, below is the additional information required by RR No. 15-2010:

(i) Output VAT

Output VAT declared for the year ended December 31, 2022 and the gross revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sales/receipts		
Subject to 12% VAT	1,332,987,736	159,958,528
Subject to zero-rated VAT	13,800,080	-
Total	1,346,787,816	159,958,528
Applied input VAT		(80,551,323)
Net VAT payable		79,407,205

Receipts from the transport of passengers and cargoes to and from places within the Philippines are subject to 12% VAT. Gross receipts from international operations are either exempt or zero-rated.

Transport from the Philippines to foreign countries are zero-rated while inbound transport is VAT exempt.

The gross revenues on sale of services are based on gross receipts of the Company while gross revenues amounting to presented in the statements of total comprehensive income are measured in accordance with the Company's accounting policy.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2022 are as follows:

Beginning balance	-
Add: Current year's domestic purchases/payments for:	
Goods	59,659,824
Services	20,162,381
Importation of goods other than capital goods	662,797
Total	80,485,002
Claim for tax credit/tax refund and other adjustments	66,321
Total available input VAT	80,551,323
Application against output VAT	(80,551,323)
Ending balance	-

(iii) Documentary stamp tax (DST)

For the year ended December 31, 2022, the Company did not incur any documentary stamp tax.

(iv) Other taxes and licenses

All other local and national taxes paid and accrued for the year ended December 31, 2022 consist of:

Permits and license fees	776,519
Local business	500
	777,019

(v) Withholding taxes

Withholding taxes on compensation paid and accrued for the year ended December 31, 2022 amounted to P5,998,961 and 75,189,648, respectively.

(vi) Tax assessments

On December 12, 2022, the Company has received a Final Assessment Notice (FAN) from the BIR for the tax investigation covering all taxes of the taxable year 2016. The FAN is currently under protest and has not yet been settled as of reporting date.

On January 13, 2023, the Company has received a Preliminary Assessment Notice (PAN) from the BIR for the tax investigation covering all taxes of the taxable year 2018. The PAN is currently under protest and has not yet been settled as of reporting date.

(vii) Tax cases

The Company does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2022.

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2023 and 2022 and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in equity for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Material Uncertainty regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company incurred a loss of P4.57 billion (2022 - P7.92 billion) which resulted to accumulated deficit as at December 31, 2023 of P44.49 billion (2022 - 39.92 billion) and capital deficiency of P43.74 billion (2022 - P39.19 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P42.26 billion as at December 31, 2023 (2022 - P36.53 billion). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The following business initiatives are being pursued to continuously improve operations and stimulate demand towards the achievement of pre-pandemic levels: (a) commercial operations resumption with main focus to fully restore and accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong; (b) increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands; (c) implement programs to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate; and (d) to monitor and control costs by driving operational efficiencies. The effective implementation of these business initiatives is expected to bring favorable results to the Company's business operations in the long term. Furthermore, the Company has obtained a letter of support from its major shareholders.

We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Page 4

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Aina Regina S. Arboleda
Partner
CPA Cert. No. 121437
P.T.R. No. 0032644, issued on January 12, 2024, Makati City
TIN 302-764-832
BIR A.N. 08-000745-238-2023, issued on January 30,2023; effective until January 29, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 15, 2024

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Statement Required by Rule 68 Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

We have audited the financial statements of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at and for the year ended December 31, 2023, on which we have rendered the attached report dated April 15, 2024.

In compliance with Revised SRC Rule 68, based on the certification received from the Company's corporate secretary and the results of our work done as at December 31, 2023, the Company has two (2) shareholders owning one hundred (100) or more shares each.

Isla Lipana & Co.

Aira Regina S. Arboleda
Partner
CPA Cert. No. 121437
P.T.R. No. 0032644, issued on January 12, 2024, Makati City
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Makati City
April 15, 2024

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
ASSETS			
Current assets			
Cash	2	66,561,623	84,042,572
Trade and other receivables, net	3	573,685,734	288,892,736
Expendable parts, materials and supplies	4	678,280,647	509,930,726
Prepayments and other current assets	5	340,183,935	471,866,413
Due from a related party	17	333,786	1,334,214,149
Total current assets		1,659,045,725	2,688,946,596
Non-current assets			
Property and equipment, net	6	10,169,337,983	7,460,085,384
Deposits	14	1,011,420,564	895,200,625
Total non-current assets		11,180,758,547	8,355,286,009
Total assets		12,839,804,272	11,044,232,605
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	8	18,895,308,892	16,961,604,136
Unearned revenue	10	3,004,344,589	2,693,214,084
Loans payable	7	317,230,128	113,604,765
Provisions for claims	8	1,028,062,900	723,038,365
Lease liabilities, current portion	15	7,920,907,671	7,684,031,107
Provision for aircraft redelivery cost, current portion	15	39,241,325	39,241,325
Due to related parties	17	12,714,791,183	11,000,199,599
Total current liabilities		43,919,886,688	39,214,933,381
Non-current liabilities			
Lease liabilities, net of current portion	15	9,719,289,669	9,545,716,500
Loans payable	7	613,311,580	934,319,560
Provision for aircraft redelivery costs, net of current portion	15	1,894,941,256	154,335,834
Retirement benefit obligation	16	433,054,825	386,920,418
Total non-current liabilities		12,660,597,330	11,021,292,312
Total liabilities		56,580,484,018	50,236,225,693
Equity			
Share capital	9	595,000,000	595,000,000
Deficit		(44,492,587,432)	(39,921,445,912)
Remeasurement gain on retirement benefit obligation	16	156,907,686	134,452,824
Total capital deficiency		(43,740,679,746)	(39,191,993,088)
Total liabilities and capital deficiency		12,839,804,272	11,044,232,605

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Revenue			
Passenger		17,689,943,923	8,126,447,559
Cargo		408,637,364	395,809,263
Other revenues		3,243,501,912	1,211,393,094
	10	21,342,083,199	9,733,649,916
Cost of services	11	(22,909,438,580)	(13,646,258,313)
Gross loss		(1,567,355,381)	(3,912,608,397)
Operating expenses	12	(2,092,780,278)	(1,766,483,508)
Other income (expenses), net	13	317,830,851	(1,251,418,194)
Finance costs	13	(1,228,836,712)	(992,871,628)
Loss before income tax		(4,571,141,520)	(7,923,381,727)
Provision for income tax	18	-	-
Loss for the year		(4,571,141,520)	(7,923,381,727)
Other comprehensive income for the year			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on retirement benefit obligation	16	22,454,862	40,245,352
Total comprehensive loss for the year		(4,548,686,658)	(7,883,136,375)

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Share capital (Note 9)	**Deficit**	**Reserve for remeasurements on retirement benefit obligation (Note 16)**	**Total capital deficiency**
Balances as of January 1, 2022	595,000,000	(31,998,064,185)	94,207,472	(31,308,856,713)
Comprehensive income for the year				
Loss for the year	-	(7,923,381,727)	-	(7,923,381,727)
Other comprehensive income for the year	-	-	40,245,352	40,245,352
Total comprehensive loss for the year	-	(7,923,381,727)	40,245,352	(7,883,136,375)
Balances as of December 31, 2022	595,000,000	(39,921,445,912)	134,452,824	(39,191,993,088)
Comprehensive income for the year				
Loss for the year	-	(4,571,141,520)	-	(4,571,141,520)
Other comprehensive income for the year	-	-	22,454,862	22,454,862
Total comprehensive loss for the year	-	(4,571,141,520)	22,454,862	(4,548,686,658)
Balances as at December 31, 2023	595,000,000	(44,492,587,432)	156,907,686	(43,740,679,746)

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from operating activities			
Loss before income tax		(4,571,141,520)	(7,923,381,727)
Adjustments for:			
Depreciation and amortization of assets	6	2,242,125,287	2,360,450,856
Interest expense	13	977,955,758	923,450,041
(Reversal of) provision for impairment of receivables	3	(55,092,708)	113,245,601
Interest income	2,13	(186,714)	(73,018)
Unrealized foreign currency exchange loss	21	(418,830,394)	2,484,282,772
Gain on lease termination	13	(138,968,485)	
Loss on retirement of PPE	6	68,672	2,238,787
Reversal of impairment loss on ROU assets	13	-	(963,100,000)
Operating loss before changes in assets and liabilities		(1,964,070,104)	(3,002,886,688)
(Increase) decrease in:			
Trade and other receivables		(232,657,487)	(149,044,730)
Expendable parts, materials and supplies		(168,349,921)	(182,427,397)
Prepayments and other current assets		131,682,478	(135,546,446)
Due from a related party		1,333,880,363	463,452,894
Increase (decrease) in:			
Trade payables and other current liabilities		2,063,153,073	2,345,713,264
Due to related parties		1,754,427,184	-
Provision for claims		305,024,535	392,931,941
Unearned revenue		311,130,505	983,240,783
Provision for aircraft redelivery costs		103,823,744	29,175,314
Retirement benefit obligation		68,589,269	86,763,096
Net cash from operations		3,706,633,639	831,372,031
Interest received		186,714	73,018
Net cash from operating activities		3,706,820,353	831,445,049
Cash flows from investing activities			
Increase in deposits		(119,720,834)	(47,130,901)
Acquisitions of property and equipment	6	(57,352,991)	(217,372,286)
Proceeds from disposal of property and equipment	6	21,028,016	-
Net cash used in investing activities		(156,045,809)	(264,503,187)
Cash flow from financing activity			
Payment of lease liabilities	15	(3,352,131,024)	(397,409,086)
Payments of loans payable	7	(114,063,176)	(13,802,448)
Interest paid	7,15	(101,978,702)	(107,787,649)
Net cash used in financing activities		(3,568,172,902)	(518,999,183)
Net (decrease) increase in cash		(17,398,358)	47,942,679
Cash at the beginning of the year		84,042,572	41,855,266
Effect of changes in foreign currency exchange rates		(82,591)	(5,755,373)
Cash at the end of the year	2	66,561,623	84,042,572

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements
As at and for the years ended December 31, 2023 and 2022
(All amounts are shown in Philippine Peso unless otherwise stated)

1 General information

1.1 Business information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company" or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline for the transport of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the "Act") granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively. Beginning 2022, the Company provisionally renews its CPCN for domestic and international services due to a requirement pending for compliance under CAB Resolution No. 32 relating to capital stock of international scheduled air transport service providers (Note 10).

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (the "Parent Company" or AAI) entered into a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2023 and 2022, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines.

With the passage of the amendments to the Public Service Act, allowing 100% foreign ownership to airlines in 2022, in 2023, Capital A Berhad's (Capital A) subsidiary AACOM Travel Philippines acquired 60% of the shares of AAI who owns and operates the Company from its previous Filipino shareholder.

Following this change, the Company now regards Capital A as its new Ultimate Parent Company.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations

For the year ended December 31, 2023, the Company incurred a loss of P4.57 billion (2022 - P7.92 billion) which resulted to accumulated deficit as at December 31, 2023 of P44.49 billion (2022 - P39.92 billion) and capital deficiency of P43.74 billion (2022 - P39.19 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P42.26 billion as at December 31, 2023 (2022 - P36.53 billion). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and may not be able to continue realizing its assets and discharging its liabilities in the normal course of business.

In 2020 and 2021, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in its operations and business strategies in order to maximize revenues and manage direct and operating costs in order to meet its cash flows requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities and frequencies, reduce operational costs, open new destinations and offer new products that are anchored on digital transformation.

In 2022, the Company has gradually improved its operating statistics in terms of operational fleet, aircraft utilization, load factor and average price that translated to higher revenues. This was influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

In 2023, the Company continued its upward trajectory. The following measures are currently implemented to ensure a sustainable recovery path coming out of the pandemic:

- Fleet restoration

  As at December 31, 2023, the Company is operating 15 aircraft which is the same with last year. The Company has capitalized on Capital A's Maintenance, Repair and Overhaul (MRO)service provider in the region, Asia Digital Engineering (ADE), to maintain the operational fleet. The Company focused on route and network planning vis-a-vis schedule optimization and capacity management to ensure efficient fleet utilization. In terms of aircraft utilization, the Company has efficiently utilized its operating aircrafts at 13.4 hours per day for the year ended December 31, 2023 which is already higher than the pre-pandemic level of 13.3 hours per day.

- Commercial operations resumption

  The relaxation in travel restrictions and quarantine requirements spurred a surge in travel demand. As a result, the Company continues its upward trend in key operating statistics.

  Domestic

  The Company's main focus was to fully restore key strategic Manila routes at pre-pandemic level since this market has the highest profitability. Domestic leisure destinations such as Boracay, Tagbilaran, Puerto Princesa and Iloilo have significantly contributed to the total ticket revenue and overall profitability for the year ended December 31, 2023. Most of the Manila domestic routes have already achieved the pre-pandemic frequencies, with two routes namely Manila-Caticlan and Manila-Tagbilaran even exceeding pre-pandemic levels. Active hubs are Manila and Cebu. New route Manila-Roxas is now operating at a frequency of 3x a week.

  International

  Included in the Company's international priority is to resume key profitable international routes especially flights to China and Taiwan. China, which comprises 25% of the total business, is expected to ramp up due to relaxation of visa restrictions for inbound and outbound travellers to and from the Philippines. With the high, and still increasing demand for air travel to various destinations in Japan, the Company will continue to capitalize on these routes, shifting its international capacity in favor of Japan routes replacing China and Taiwan routes, as necessary in order to maximize revenue opportunities. New routes were launched, Manila-Tokyo and Cebu-Tokyo for international flights.

- Charter flight business and other revenue streams

  The decline in chartered flight revenus is expected as commercial flights already resumed.

  Overall, the cargo business consolidated a total of P409 million for the year ended December 31, 2023 which is a 3% growth from 2022 and 13% higher than 2019. The leading cargo route is Manila-Davao. Other top contributors include Manila-Puerto Princesa, Manila-Cagayan de Oro and Manila-Bacolod.

On the ancillary business which includes baggage, seat selections, fees, food and beverage, insurance, merchandise and duty free products, the Company generated a total of P3.2 billion for the year ended December 31, 2023 which is 78% of pre-pandemic levels. Numerous ancillary marketing and promo initiatives were implemented in order to ensure higher yield and boost take-up rate.

- Working capital management

  The Company's cash management has improved as the Company benefited from the increase of operating fleet and capacities with average daily sales at almost 80% of pre-pandemic level. As a result, the Company is able to meet and fulfil its obligations in light of the renegotiated payment plans with vendors.

  Furthermore, the Company, with the assistance of Capital A, has managed to restructure several aircraft operating leases with lessors (Note 15) for renegotiated lease terms, mainly to extended the lease contract periods and lower lease payment rates. Other suppliers have also granted favorable payment terms and several fuel vendors have granted credit lines. This includes a payment plan for past due accounts together with the current billings. The Company has also religiously paid its monthly and quarterly loan amortization with a local bank without fail.

- Funding and financial support

  Certain shareholders of AAI continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will delay calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2023; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking (Notes 17 and 21).

Currently included in its priorities to accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market is expanding on its existing and highly profitable markets in East Asia, particularly in locations such as Japan, China and Hong Kong, following a regain patronage to these destinations. Also, new routes outside Manila targeting Caticlan will be launched to grow domestic presence. International expansion into East Asia to leverage on the pent-up demand, targeting destinations where markets are familiar with the AirAsia brand. Meanwhile, the China market will be a key factor in the international recovery as the Company position itself into scheduling frequent flights to this location via Manila and Clark hubs.

Aside from the specific actions mentioned in the foregoing, the Company continues to operate and fully adopt AirAsia Group's brand business model. This includes moving towards continuous introduction of new products and services of the brand, utilization of the recently launched AirAsia super app to promote better customer experience and convenience, as well as exploring new destination hubs worldwide. These planned changes in strategies is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines.

The effective implementation of the new business model is expected to bring favorable results to the Company's business operations, particularly, increased passenger revenues and improved profitability in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on April 13, 2024.

2 Cash

Cash as at December 31 consists of:

	2023	2022
Cash on hand	2,122,179	2,042,656
Cash in bank	64,439,444	81,999,916
	66,561,623	84,042,572

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2023 amounted to P186,714 (2022 - P73,018) (Note 13).

3 Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2023	2022
Trade receivables			
Third parties		1,736,553,481	1,600,397,507
Less: Allowance for impairment loss		(1,351,460,138)	(1,406,552,846)
		385,093,343	193,844,661
Related parties	17	155,188,306	78,004,960
		540,281,649	271,849,621
Other receivables		33,404,085	17,043,115
		573,685,734	288,892,736

Third party trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days. Related party trade receivable are collectible on demand.

Other receivables include advances to employees which are subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Note	2023	2022
Beginning of the year		1,406,552,846	1,293,307,245
(Reversal of) provision for impairment loss	12	(55,092,708)	113,245,601
End of the year		1,351,460,138	1,406,552,846

Critical accounting estimates and assumptions: Allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

4 Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2023	2022
At cost		
Expendable parts	667,391,707	504,682,706
Inflight inventories	10,888,940	5,248,020
	678,280,647	509,930,726

For the year ended December 31, 2023, the cost of inventories charged to profit or loss as part of repairs and maintenance expenses amounted to P394.8 million (2022 - P192.7 million) (Note 11).

Critical accounting judgment: Determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory write-down for the years ended December 31, 2023 and 2022.

5 Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2023	2022
Prepaid maintenance and fuel	230,813,887	365,605,279
Prepaid taxes	43,357,278	20,030,625
Prepaid insurance	28,746,702	6,450,044
Others	37,266,068	79,780,465
	340,183,935	471,866,413

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time, generally over a period of 12 months, or through use or consumption.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which can be applied against future income tax liabilities.

Others mainly include reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, advanced payments for short-term rentals and advances for airport charges and regulatory fees.